

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2019

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from ___ to ___

Commission file number: 001-36849

NATURAL HEALTH TRENDS CORP.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

59-2705336
(I.R.S. Employer
Identification No.)

Units 1205-07, 12F
Mira Place Tower A
132 Nathan Road, Tsimshatsui
Kowloon, Hong Kong

(Address of principal executive offices, including zip code)

Registrant's telephone number, including area code: +852-3107-0800

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, par value \$0.001 per share	NHTC	The NASDAQ Stock Market LLC

Securities registered pursuant to Section 12(g) of the Act:

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input checked="" type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input checked="" type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes No

The aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the closing price of such common equity on June 30, 2019: \$55,398,949

At March 5, 2020, the number of shares outstanding of the registrant's common stock was 1,422,539 shares.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive proxy statement to be filed with the United States Securities and Exchange Commission no later than 120 days after the end of the registrant's fiscal year end to which this report relates are incorporated by reference into Part III of this Annual Report on Form 10-K where indicated.

NATURAL HEALTH TRENDS CORP.
Annual Report on Form 10-K
December 31, 2019

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FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K, in particular “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations,” and “Item 1. Business,” include “forward-looking statements” within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). When used in this report, the words or phrases “will likely result,” “expect,” “intend,” “will continue,” “anticipate,” “estimate,” “project,” “believe” and similar expressions are intended to identify “forward-looking statements” within the meaning of the Exchange Act. These statements represent our expectations or beliefs concerning, among other things, future revenue, earnings, growth strategies, new products and initiatives, future operations and operating results, and future business and market opportunities.

Forward-looking statements in this report speak only as of the date hereof, and forward-looking statements in documents incorporated by reference speak only as of the date of those documents. We undertake no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events or otherwise, except as required by law. We caution and advise readers that these statements are based on certain assumptions that may not be realized and involve risks and uncertainties that could cause actual results to differ materially from the expectations and beliefs contained herein.

For a summary of certain risks related to our business, see “Item 1A. Risk Factors” in this report. Additional factors that could cause actual results to differ materially from our forward-looking statements are set forth in this report, including under the heading “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and in our financial statements and the related notes.

Unless otherwise noted, the terms “we,” “our,” “us,” and “Company,” refer to Natural Health Trends Corp. and its subsidiaries. References to “dollars” and “\$” are to United States dollars.

Part I

Item 1. BUSINESS

Overview of Business

Natural Health Trends Corp. is an international direct-selling and e-commerce company. Subsidiaries controlled by us sell personal care, wellness, and “quality of life” products under the “NHT Global” brand. Our wholly-owned subsidiaries have an active physical presence in the following markets: the Americas, which consists of the United States, Canada, Cayman Islands, Mexico and Peru; Greater China, which consists of Hong Kong, Taiwan and China; Southeast Asia, which consists of Singapore, Malaysia, Thailand and Vietnam; South Korea; Japan; India; and Europe. We also operate in Russia and Kazakhstan through our engagement with a local service provider.

Most of our order volume, particularly in our Hong Kong subsidiary, is for personal consumption through existing members’ referrals. Our objectives are to enrich the lives of the users of our products and enable our members to benefit financially from the sale of our products.

We are incorporated in Delaware and maintain our corporate headquarters in Hong Kong.

Our common stock is currently traded on the NASDAQ Capital Market under the symbol “NHTC.”

Available Information

Our website is located at www.naturalhealthtrends.com. Our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and amendments to such reports are available, free of charge, on our website as soon as reasonably practicable after we file electronically such material with, or furnish it to, the United States Securities and Exchange Commission, or SEC. The information provided on our website should not be considered part of this report. The SEC maintains an internet website at <http://www.sec.gov> that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC.

Our Principal Products

We offer a line of “NHT Global” branded products in eight distinct categories: wellness, herbal, beauty, lifestyle, home, baby, active, and daily. These product categories, along with the business opportunity we offer in most of our markets, provide our members a platform to further their goal of achieving and maintaining healthy, quality lifestyles complete with product supplementation and the opportunity for financial rewards.

The following table summarizes our product offering by category:

Product Category	Description	Products
<i>Wellness</i>		
Products formulated and designed to meet specific wellness goals of our customers. Includes targeted nutrition for joint health, antioxidant support, digestive health, heart health, vision health, immune support and cellular health.	Liquid, encapsulated, tableted and powder dietary and nutritional supplements, vitamins, minerals	Premium Noni Juice, Triotein™, Cluster X2™, Children’s Chewable Multivitamin, ReStor Silver™, ReStor Vital™, HerBalance, Trifusion Max™, Glucosamine 2200™, FibeRich™, Energin, Enhanced Essential Probiotics, Omega-3 Essential Fatty Acids, MemoryBurst™, StemRenu®, OcuFocus™, CurcuMore™, AdaptoGin™
<i>Herbal</i>		
Products formulated incorporating ingredients commonly found in traditional Chinese medicine.	Herbal supplements	LivaPro™, Cordyceps Mycelia CS-4™, Purus, CogniMax, RespFactor™

<i>Beauty</i> Products to help improve skin health and bring an appearance of youthful vibrancy. This product line includes age-defying and hydrating cleansers, creams, lotions, serums and toners to moisturize, protect and improve the appearance of skin.	Facial skin care and hand and body care	Skindulgence™ 30 Minute Firming System, Time Restore™ Eye Cream and Essence, BioCell SC Mask, 24K Renaissance™ Rejuvenation Serum, Valesce™, Floraeda Hydrating Series, Botanical Hand Protector™, Airelle® Exfoliating Cleanser, Airelle® Age-Defying Facial Serum, Airelle® Intense Hydrating Repair Complex, Airelle® Age-Defying Eye & Lip Treatment, Airelle® Hydrating Manuka Mask, Color Awakening Lipstick™, Adamas™ Brightening Series, Moisturizing Cleansing Gel
<i>Lifestyle</i> Products uniquely formulated to improve overall quality of life and to support active, physical and healthy lifestyles including weight management, and energy enhancing supplements.	Supplements and topical gels for improved vitality	Alura Lux™ by NHT Global, Valura Lux™, LaVie™, TwinSlim Diet Jelly™, NaturalGlo™
<i>Home</i> Products designed to create a clean and natural living environment for the home.	Home appliances	Air Purifier
<i>Baby</i> Products uniquely formulated with gentle ingredients from nature for infants and babies.	Infant and toddler bath and body care	Moisturizing Lotion and Bubble Cleanser
<i>Active</i> Products uniquely formulated to support those with active, healthy lifestyles. Products include dietary supplements to enhance daily nutrition for lasting energy.	Dietary supplement drink mixes for nutritional support and refuel and recovery support	Phyto Daily Active™ and Optimal Recovery™
<i>Daily</i> Daily care products designed to cleanse and protect the body and promote personal hygiene.	Oral care, hair care, and body care	FE Enzyme Toothpaste™, Bontanesse™ Series, Smart Sonic Toothbrush

We continuously source unique, proprietary and immediate impact products to offer to our members and customers. Our product development is an ongoing process that is fueled by marketplace trends, new technologies and scientific findings, members' input, research and vendor proposals.

Working closely with raw material manufacturers and contract manufacturers, our mission is to co-develop and bring to market the highest quality products. Our manufacturers are primarily located in the United States, as well as a few in South Korea, Hong Kong, Taiwan and China. Our raw materials are sourced from reputable suppliers around the world. All current and new products introduced into the market are tested to ensure country and state regulatory compliance requirements are met where the products are sold. This includes proper handling, shipping, and shelf-life recommendations for our products. In addition, raw material Certificates of Analyses are reviewed to ensure that appropriate testing has been performed and are within required ingredient specifications.

Operations of the Business

Operating Strategy

Our objective is to help our members succeed in achieving their life objectives; be it personal health, beauty, happiness or financial rewards. Our employees focus on assisting our members in attaining their goals.

We believe we have a competitive business model applicable to the markets in which we operate based on six key competencies:

- Our field leaders are experienced and culturally coherent. They work effectively with our management, implementing our strategies and providing continuous feedback to improve our services.
- A discipline and capability has been established to continue launching high-quality consumer products that are designed to facilitate the accomplishment of our corporate objectives.
- We have developed and rolled out a comprehensive training system that provides a complete career path appropriate for our members. Our training material covers the needs of our members, be they prospects, new recruits, product evangelists, sales leaders or dream builders.
- We have developed a year-round, multi-faceted promotional plan that targets different segments of our membership and has proven effective in the last few years.
- We have implemented a commission structure that makes it as easy as possible to join our business, while giving existing members a chance to start earning money as quickly as possible in multiple ways.
- The continuously improving mentality and methodology in our customer services have not only distinguished us as an organization, but have also given us a constant flow of information as to how we can do better to service our members.

Sourcing of Products

Our staff works with research and development personnel of our manufacturers and other prospective vendors to create product concepts and develop the product ideas into actual products. We then may enter into supply agreements with the vendors pursuant to which we obtain rights to sell the products under private labels (or trademarks) that are owned by us. In addition, some of our local markets introduce their own products from time to time and these products are sometimes adopted by our other markets.

We generally purchase finished goods from manufacturers and sell them to our members for retail and personal consumption. We believe that in the event we are unable to source products from our current or alternate suppliers, our revenue, income and cash flow could be adversely and materially impacted. We have some contracts with our suppliers with automatic renewal rights.

Marketing and Distribution

We distribute our products internationally primarily through a network marketing system, which is a form of person-to-person direct selling. Under this system, members primarily refer our products to prospective consumers or they may buy at wholesale prices for personal consumption or for resale to consumers. The concept of network marketing is based on the strength of personal recommendations that frequently come from friends, neighbors, relatives, and close acquaintances. We believe that network marketing is an effective way to distribute our products because it allows person-to-person product education and testimonials as well as higher levels of customer service, all of which are not as readily available through other distribution channels. In this document, we generically use the term “member” to refer to members who purchase for their own consumption or for resale, or both, as well as to members who only sign up to consume our products.

Each of our products is designated a specified number of bonus volume points. Commissions are paid to members based on total personal and group bonus volume points per weekly sales period. Bonus volume points are essentially a percentage of a product’s wholesale price.

Virtually all of our members are independent full-time or part-time contractors who purchase products directly from our subsidiaries via the internet for their own personal consumption or for resale to retail consumers. Purchasers of our products in some of our smaller markets and purchasers of our products from our China subsidiary may purchase only for their own personal consumption and not for resale.

The following table sets forth the number of active members by market as of the dates indicated. We consider a member “active” if they have placed at least one product order with us during the preceding year. Members may not necessarily reside in the market for which they sign up as a member.

	December 31,	
	2019	2018
Americas ¹	7,150	6,880
Hong Kong (including those members residing in China) ²	43,930	84,690
Taiwan	2,550	2,970
South Korea	120	180
Japan	130	170
Singapore	60	70
Malaysia	170	150
Russia and Kazakhstan	950	790
Europe	1,670	1,940
India	680	—
Total	57,410	97,840

¹ *United States, Canada, Mexico and Peru*

² *Substantially all of our Hong Kong revenues are derived from the sale of products that are delivered to members in China. See “Item 1A. Risk Factors”.*

Members must agree to the terms and conditions of our member agreement posted on our website. The member agreement sets forth our policies and procedures, and we may elect to terminate a member for non-compliance.

We pay commissions to eligible members based on product purchases by such members’ down-line customers and members during a given commission period. To be eligible to receive commissions, members in some countries may be required to make nominal monthly or other periodic purchases of products. See “Working with Members.”

Members generally place orders through the internet and pay by credit card prior to shipment. Accordingly, we carry minimal accounts receivable and credit losses are historically negligible.

We sponsor promotional meetings, product education, motivational and personal development training events for current and potential members. These events are designed to inform prospective and existing members about both existing and new product lines, our latest marketing and promotional plans, and new services improvements. These events also serve as a venue for recognition of member accomplishments. Members typically share their experiences in using our products and developing their business at these events. We are continually developing and updating our marketing strategies and programs to motivate our members.

Recent Disruptions to our Operations

Our normal business operations have recently been disrupted by a series of events, including the Chinese government's 100-day campaign focused on companies involved in the sale of health products in China, recent political and social developments in Hong Kong, and the coronavirus (COVID-19) outbreak and related measures to control it. See "Item 1A. Risk Factors - Our operations in China are subject to compliance with a myriad of applicable laws and regulations...", "Risk Factors - Our Hong Kong operations are being adversely affected by recent political and social developments in Hong Kong...", "Risk Factors - Epidemics, such as the 2020 coronavirus outbreak, or natural disasters, terrorists attacks or acts of war...", and "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations - Business Overview."

Management Information Systems

Our business uses a proprietary web-based system to process orders and to communicate bonus volume activity and commissions to members. We have automated a substantial amount of our financial reporting processes through implementation of Oracle's E-Business Suite, and have integrated other critical business processes such as inventory management, purchasing and costing in our most significant markets.

Employees

At December 31, 2019, we employed 152 total full-time employees worldwide, of which 97 were located in Greater China (Hong Kong, China, and Taiwan), 34 in the Americas (United States, Canada, Cayman Islands, and Peru), four in Europe, four in India, three in Malaysia, three in South Korea, three in Russia, two in Japan, one in Singapore, and one in Vietnam.

Seasonality

From quarter to quarter, we are somewhat impacted by seasonal factors and trends such as major cultural events and vacation patterns. For example, most Asian markets celebrate their respective local New Year in the first quarter. This generally has a significant impact on the services of our third-party providers, and can negatively impact our net sales. We believe that net sales can also be negatively impacted during the third quarter, when many of our members traditionally take time off for vacations. In addition, the national holidays in Hong Kong, China and Taiwan in early October tend to have an adverse effect on sales in those markets.

Our spending, as well as to some extent revenue, is affected by the major events planned at different times of the year. A major promotional event could significantly increase the reported expenses during the quarter in which the event actually takes place, while the revenue that might be generated by the event may not occur in the same reporting period.

Intellectual Property

Most of our products are packaged under a "private label" arrangement. We have obtained or applied for trademark registration for certain names, logos and various product names in several countries in which we are doing business or considering expanding. We also rely on common law trademark rights to protect our unregistered trademarks. These common law trademark rights do not provide us with the same level of protection as afforded by a United States federal trademark. Common law trademark rights are limited to the geographic area in which the trademark is actually utilized, while a United States federal registration of a trademark enables the registrant to discontinue the unauthorized use of the trademark by a third party anywhere in the United States even if the registrant has never used the trademark in the geographic area where the trademark is being used; provided, however, that the unauthorized third party user has not, prior to the registration date, perfected its common law rights in the trademark within that geographic area.

We have U.S. and foreign holding and operating company structures for our businesses, which involve the division of our United States and non-United States operations. Under this structure, the foreign holding company retains the economic ownership of the intangible property outside of the United States, including trademarks, trade secrets and other proprietary information.

Working with Members

Sponsorship

Enrolling new members creates multiple levels in our direct selling structure. The persons that a member enrolls within the network are referred to as “sponsored” members, who may purchase product solely for their own personal consumption, for resale, or both. Persons newly enrolled are assigned into network positions that can be “under” other members, and thus they can be called “down-line” members. If down-line members also enroll new members, they create additional levels within the structure, but their down-line members remain in the same down-line network as the original member that introduced them to our business.

While we provide informational brochures and other sales materials, members are primarily responsible for enrolling and educating their new members with respect to products, the compensation plan and how to build a successful membership network.

Members are not required to enroll other members as their down-line, and we do not pay any commissions for enrolling new members. However, because of the financial incentives provided to those who succeed in building a member network that consumes and resells products, we believe that many of our members attempt, with varying degrees of effort and success, to enroll additional members. Because they are seeking new opportunities for income, people are often attracted to become members after using our products or after attending introductory seminars. Once a person becomes a member, he or she is able to purchase products directly from us at wholesale prices via the internet. The member is also entitled to enroll other members in order to build a network of members and product users.

Compensation Plans

We employ what is commonly referred to as a binary compensation plan, enhanced with certain unilevel features. Under our compensation plan, members are paid weekly commissions by our subsidiary in which they are enrolled for product purchases by their down-line member network across all geographic markets. Our China subsidiary maintains an e-commerce retail platform and does not pay commissions, although our Chinese members may participate in our compensation plan through our other subsidiaries. This “seamless” compensation plan enables a member located in one country to sponsor other members located in other countries. Currently, there are basically two ways in which members can earn income:

- Through commissions paid on the accumulated bonus volume from product purchases made by their down-line members and customers;
and
- Through retail profits on sales of products purchased by members at discount and wholesale prices and resold at retail prices (for purchasers in some of our smaller markets and purchasers from our China subsidiary, sales are for personal consumption only and income may not be earned through retail profits).

Each of our products is designated a specified number of bonus volume points. Commissions are based on total personal and group bonus volume points per sales period. Bonus volume points are essentially a percentage of a product’s wholesale price. As the member’s business expands, the member receives higher commissions from purchases made by an expanding down-line network. To be eligible to receive commissions, a member may be required to make nominal monthly or other periodic purchases of our products. Certain of our subsidiaries do not require these nominal purchases for a member to be eligible to receive commissions. In determining commissions, the number of levels of down-line members included within the member’s commissionable group increases as the number of memberships directly below the member increases. Under our current compensation plan, some of our commission payout may be limited to a hard cap dollar amount per week or a specific percentage of the total product sales. In some markets, commissions may be further limited.

In some markets, we also pay certain bonuses on purchases by up to three generations of personally sponsored members, as well as bonuses on commissions earned by up to seven generations of personally sponsored members. Members can also earn income, trips and other prizes in specific time-limited promotions and contests we hold from time to time.

Occasionally, we make modifications and enhancements to our compensation plan to help motivate members, which can have an impact on member commissions. We may also enter into agreements for business or market development, which could result in additional compensation to specific members.

Member Support

We are committed to providing a high level of support services tailored to the needs of our members in each market we are serving. We attempt to meet the needs and build the loyalty of members by providing personalized member services and by maintaining a generous product return policy (see “Product Warranties and Returns”). We believe that maximizing a member’s efforts by providing effective member support has been, and could continue to be, important to our success.

Through product training meetings, regular conventions, web-based messages, member focus groups, regular telephone conference calls and other personal contacts with members, we seek to understand and satisfy the needs of our members. Via our websites, we may provide product fulfillment and tracking services that result in user-friendly and timely product distribution.

To help maintain communication with our members, we offer the following support programs:

- Teleconferences – we hold teleconferences with associate field leadership on various subjects such as technical product discussions, member organization building and management techniques.
- Internet – we maintain a website at www.nhtglobal.com. On this website, the user can read company news, learn more about various products, sign up to be a member, place orders, and track the fulfillment and delivery of their orders.
- Product Tools – we offer a variety of marketing tools to members, including product catalogs, videos, informational brochures, pamphlets and posters for individual products, which are both printed and available online.
- Broadcast E-mail and Text Messages – we send announcements via e-mail and/or text messages to members who opt in to receive this form of communication.
- Social Media Tools – in some countries we maintain country-specific social media sites to foster a community environment around our product offering and business opportunity.

Technology and Internet Initiatives

We believe that the internet is important to our business as more consumers communicate online and purchase products over the internet as opposed to traditional retail and direct sales channels. As a result, we have committed significant resources to our e-commerce capabilities and the abilities of our members to take advantage of the internet. Substantially all of our sales take place via the internet. We offer a global web page that allows a member to have a personalized replicating website through which he or she can sell products in all of the countries in which we do business. Links to these websites can be found at our main website for members at www.nhtglobal.com. The information provided on these websites should not be considered part of this report.

Rules Affecting Members

Our member policies and procedures establish the rules that members must follow in each market. We also monitor member activity in an attempt to provide our members with a “level playing field” so that one member may not be disadvantaged by the activities of another. We require our members to present products and business opportunities in an ethical and professional manner. Members further agree that their presentations to customers must be consistent with, and limited to, the product claims and representations made in our literature.

Our policies and procedures require that we produce or pre-approve all sales aids used by members such as presentations, videos, audio recordings, brochures and promotional clothing. Further, members may not use any form of media advertising to promote products unless it is pre-approved by us. Members are not entitled to use our trademarks or other intellectual property without our prior consent. If we are made aware of unapproved materials being used, we notify and direct the relevant members to cease using such materials. In addition to regularly communicating to our members what is and is not appropriate to say about product or income claims, we have engaged a third-party service provider to assist us in monitoring the internet and various social media to identify potential misconduct or violations of our policies and procedures.

Our compliance and member services department reviews reports of alleged member misbehavior. If we determine that a member has violated our member policies or procedures, we may terminate the member's rights completely. Alternatively, we may impose sanctions, such as warnings, probation, withdrawal or denial of an award, suspension of privileges of the membership, fines, withholding commissions, until specified conditions are satisfied or other appropriate injunctive relief. Virtually all of our members are independent contractors, not employees, and may act independently of us. Further, our members may resign or terminate their membership at any time without notice. See "Item 1A. Risk Factors."

Government Regulations

Direct Selling Activities

Direct selling, or multi-level marketing, activities are regulated by various federal, state and local governmental agencies in the United States and other countries. These laws and regulations are generally intended to prevent fraudulent or deceptive schemes. The laws and regulations in our current markets often:

- impose cancellation/product return, inventory buy-backs and cooling-off rights for consumers and members;
- require us or our members to obtain a license from, or register with, governmental agencies;
- impose reporting requirements; and
- impose upon us requirements, such as requiring members to maintain levels of retail sales to qualify to receive commissions, to avoid pyramid schemes by ensuring that members are being compensated for sales of products and not for recruiting new members.

The laws and regulations governing direct selling are modified from time to time, and, like other direct selling companies, we may be subject from time to time to government reviews, examinations or investigations in our various markets related to our direct selling activities. This can require us to make changes to our business model and aspects of our global compensation plan in the markets impacted by such changes and examinations.

China has direct selling and anti-pyramiding regulations that are restrictive and contain various limitations, including a restriction on the ability to pay multi-level compensation to independent members and engage in certain member recruitment activities. The regulatory environment in China is complex, and our operations in China can receive regulatory and media attention.

The Chinese government scrutinizes activities of direct selling companies. Our business continues to be subject to regulations and examinations by municipal and provincial level regulators. At times, actions by government regulators have impacted our members' activities in certain locations, and have resulted in a few cases of enforcement actions. In each of these cases, we helped our members with their defense in the legality of their conduct. We expect that our business model will continue to evolve, as we work with our professional advisors and regulators to make any changes that need to be made to comply with the direct selling and other regulations.

We believe that neither our Hong Kong-based website nor our e-commerce platform in China require a direct selling license in China, which we currently do not hold. We previously submitted a preliminary application for a direct selling license in China in August 2015, but in 2019 a Chinese governmental authority recommended that we withdraw our application. We understand that the governmental authorities recommended that other companies with pending direct selling license applications also withdraw their applications. We applied to withdraw our application in November 2019, and the governmental authorities approved the withdrawal of our application shortly thereafter. In connection with the withdrawal of our application, we expect that we will soon receive a refund of a consumer protection fund deposit of CNY 20 million (\$2.9 million as of December 31, 2019) that we made in connection with the submission of our application. We expect to reapply for a direct selling license in China when we believe that circumstances are again ripe for doing so.

Regulation of Our Products

Our products and related promotional and marketing activities are subject to extensive governmental regulation by numerous governmental agencies and authorities in the United States, including the U.S. Food and Drug Administration (the "FDA"), the Federal Trade Commission (the "FTC"), the Consumer Product Safety Commission, the United States Department of Agriculture, State Attorneys General and other state regulatory agencies. In our foreign markets, the products are generally regulated by similar government agencies.

Our personal care products are subject to various laws and regulations that regulate cosmetic products and set forth regulations for determining whether a product can be marketed as a “cosmetic” or requires further approval as an over-the-counter (OTC) cosmetic. In the United States, regulation of cosmetics is under the jurisdiction of the FDA and the FTC. The Food, Drug and Cosmetic Act defines cosmetics by their intended use, as “articles intended to be rubbed, poured, sprinkled, or sprayed on, introduced into, or otherwise applied to the human body . . . for cleansing, beautifying, promoting attractiveness, or altering the appearance.” Among the products included in this definition are skin moisturizers, eye and facial makeup preparations, perfumes, lipsticks, fingernail polishes, shampoos, permanent waves, hair colors, toothpastes and deodorants, as well as any material intended for use as a component of a cosmetic product. Conversely, a product will not be considered a cosmetic, but may be considered a drug if it is intended for use in the diagnosis, cure, mitigation, treatment, or prevention of disease, or is intended to affect the structure or any function of the body. A product’s intended use can be surmised from marketing or product claims. The other markets in which we operate have similar regulations. Additionally, the requirement that claims for products must be truthful and substantiated is enforced by the FTC.

In Japan, the Ministry of Health, Labor and Welfare regulates the sale and distribution of cosmetics and requires us to have an import business license and to register each personal care product imported into Japan. In Taiwan, all “medicated” cosmetic products require registration. In China, personal care products are placed into one of two categories, “general” and “drug.” Products in both categories require submission of formulas and other information with the health authorities, and drug products require human clinical studies. The product registration process in China for these products can take from nine to more than 18 months or longer. Such regulations in any given market can limit our ability to import products and can delay product launches as we go through the registration and approval process for those products. The sale of cosmetic products is regulated in the European Union under the European Union Cosmetics Directive, which requires a uniform application for foreign companies making personal care product sales. In Peru, this is managed by the governing arm DIGEMID (Dirección General de Medicamentos, Insumos y Drogas) and can take up to three months to fully register as saleable. Similarly, in Mexico, the governing arm is COFEPRIS (Comisión Federal para la Protección contra Riesgos Sanitarios) and can also take three to six months to fully register as saleable.

The markets in which we operate all have varied regulations that distinguish foods and nutritional health supplements from “drugs” or “pharmaceutical products.” Because of the varied regulations, some products or ingredients that are recognized as a “food” in certain markets may be treated as a “pharmaceutical” in other markets. These regulations may require us to either modify a product or refrain from selling the product in a given market. As a result, we must regularly modify the ingredients and/or the levels of ingredients in our products to ensure all applicable regulatory restrictions are addressed. In some circumstances, the regulations in foreign markets may require us to obtain regulatory approval prior to introduction of a new product or limit our uses of certain ingredients altogether. There has been an increased movement in the United States and other markets to expand the regulation of dietary supplements. This could impose additional restrictions or requirements in the future. Because of this increased regulatory focus, our internal regulatory staff has grown and review efforts have been enhanced in order to comply with our understanding of current regulations.

FDA regulations require current good manufacturing practices (cGMP) for dietary supplements. The regulations seek to ensure personnel are routinely and properly trained, that dietary supplements are produced in a quality manner, do not contain contaminants or impurities, and are accurately labeled. The regulations include requirements for establishing quality control procedures for us and our vendors and suppliers, designing and constructing manufacturing plants, and testing ingredients and finished products. The regulations also include requirements for record keeping and handling consumer product complaints. If dietary supplements contain contaminants or do not contain the type or quantity of dietary ingredient they are represented to contain, the FDA would consider those products to be adulterated or misbranded. We seek to ensure compliance with all regulatory requirements through our periodic manufacturer and warehouse audits, as well as our corrective action request (CAR) program, if needed. The cGMP also extend to logistics where we seek to minimize any safety risks associated with product distribution.

Our business is subject to additional FDA regulations, such as those implementing an adverse event reporting system (“AER’s”), which requires us to document and track adverse events and report serious adverse events, which are events involving hospitalization or death, associated with consumers’ use of our products.

Most of our major markets also regulate advertising and product claims regarding the efficacy of products. This is particularly true with respect to our dietary supplements because we typically market them as foods or health functional foods. For example, in the United States, we are unable to claim that any of our nutritional supplements will diagnose, cure, mitigate, treat or prevent disease. In the United States, the Dietary Supplement Health and Education Act, however, permits substantiated, truthful and non-misleading statements of nutritional support to be made in labeling, such as statements describing general well-being resulting from consumption of a dietary ingredient or the role of a nutrient or dietary ingredient in affecting or maintaining a structure or a function of the body. Most of the other markets in which we operate have not adopted similar legislation, so distribution of U.S. products may be subject to more restrictive limitations on the claims we can make about our products in these markets.

China's 100-Day Campaign Focusing on Health Products and Services

On January 8, 2019, the Chinese government announced a comprehensive 100-day campaign focusing on companies involved in the sale of food, equipment, daily necessities, small home electrical appliances and services that are claimed to promote health. The Chinese government ministries in charge of this campaign indicated that they are targeting illegal practices in the industry, particularly the manufacture and sale of counterfeit and substandard products, and false advertising and misleading claims as to the health benefits of products and services. It is further understood that the campaign is specifically focused on the business practices of direct selling companies. During the campaign, we understand that the government is not issuing any additional direct selling licenses, is not issuing certifications of quality or other approvals of various healthcare products, is reviewing its regulatory oversight of the industry, and is prohibiting companies from conducting large distributor meetings. Although the 100-day campaign was due to expire on or about April 18, 2019, we are not aware of any information indicating that the campaign has formally concluded. However, on August 27, 2019, the Chinese government announced that it would conduct a “look-back review” to evaluate the 100-day campaign. As part of this review, we understand that various Chinese governmental agencies formed a working group to assess the 100-day campaign, particularly focusing on the health market and its supervision in certain provinces. We understand that during September 2019 the working group evaluated the performance and results of a number of organizations and governmental departments in these provinces and made recommendations for various improvements. It was noted that each province had opened a number of investigative cases, had successfully closed numerous cases, and had imposed various fines and penalties. We understand that the look-back review continued after September 2019, and we are not aware that this review has been completed.

The 100-day campaign, including its extension and aftermath, has and is expected to continue negatively impacting our business in China in the near-term, but will ultimately benefit us and Chinese consumers in the long-term as purveyors of substandard products are driven from the market. See “Item 1A. Risk Factors - Our operations in China are subject to compliance with a myriad of applicable laws and regulations...” and “Item 7. - Management’s Discussion and Analysis of Financial Condition and Results of Operations - Business Overview.”

Other Regulatory Issues

As we operate through many subsidiaries in foreign jurisdictions, we are subject to foreign exchange control, transfer pricing and custom laws that regulate the flow of funds between our entities for product purchases, management services and contractual obligations, such as the payment of member commissions. As is the case with most companies that operate in direct sales, we might receive inquiries or scrutiny from time to time from government regulatory authorities regarding the nature of our business and other issues, such as compliance with local direct selling, pyramid selling, transfer pricing, customs, taxation, foreign exchange control, securities and other laws.

Product Warranties and Returns

Our refund policies and procedures closely follow industry and country-specific standards, which vary greatly by country. For example, in the United States, the Direct Selling Association recommends that direct sellers permit returns during the twelve-month period following the sale, while in Hong Kong the standard return policy is 14 days following the sale. Our return policies typically conform to local laws or the recommendation of the local direct selling association. In most cases, members who timely return unopened product that is in resalable condition may receive a refund. The amount of the refund may be dependent on the country in which the sale occurred, the timeliness of the return, and any applicable re-stocking fee. NHT Global must be notified of the return in writing and such written requests would be considered a termination notice of the membership. We may alter our return policy in response to special circumstances.

Significant Customers

Sales are made to our members and no single customer accounted for 10% or more of our net sales. However, our business model can result in a concentration of sales to several different members and their network of members. Although no single member accounted for 10% or more of net sales, the loss of a key member or that member's network could have an adverse effect on our net sales and financial results.

Our Industry

We are engaged in the direct selling industry, selling wellness, herbal, beauty, lifestyle, home, baby, active, and daily products. More specifically, we are engaged in what is called network marketing or multi-level marketing. This type of organizational structure and approach to marketing and sales include companies selling lifestyle enhancement products, cosmetics and dietary supplements, or selling other types of consumer products. Generally, direct selling is based upon an organizational structure in which independent members purchasing a company's products are compensated for sales made directly to consumers.

Our members are compensated based on sales generated by members they have enrolled and all subsequent members enrolled by their "down-line" network of members. The experience of the direct selling industry has been that once a sizeable network of members is established, new and alternative products and services can be offered to those members for sale to consumers and additional members.

Competition

The network marketing industry is very diverse, with giant multinational corporations as well as smaller, local operators. Big network marketing companies include Nu Skin Enterprises, Inc., USANA Health Sciences, Inc., and Herbalife, Ltd, which have much greater name recognition and financial resources than we do and also have many more members. They are publicly traded and therefore serve as informational benchmarks, but we don't overlap with them in terms of marketplace or product range. On the other hand, many medium- and small-sized privately held Chinese, Taiwanese and Hong Kong companies are fierce competitors and are much closer to directly competing with us. Also, a number of our former employees and members now work for competitors and sometimes try to use relationships and knowledge obtained to compete with us.

Our ability to compete with other network marketing companies depends, in significant part, on our success in attracting and retaining members. There can be no assurance that our programs for attracting and retaining members will be successful. The pool of individuals interested in network marketing is limited in each market and is reduced to the extent other network marketing companies successfully attract these individuals into their businesses. Although we believe that we offer an attractive opportunity for our members, there can be no assurance that other network marketing companies will not be able to recruit our existing members or deplete the pool of potential members in a given market.

The direct selling channel tends to sell products at a higher price compared to traditional retailers, which poses a degree of competitive risk. There is no assurance that we would continue to compete effectively against retail stores, internet-based retailers or other direct sellers.

Item 1A. RISK FACTORS

We are exposed to a variety of risks that are present in our business and industry. The following are some of the more significant factors that could affect our business, results of operations and financial condition.

We could be adversely affected by management changes or an inability to attract and retain key management, directors and consultants.

We incur a low level of overhead and are run by a small number of executives, who rely on a small group of employees. Our future success depends to a significant degree on the skills, experience and efforts of our top management and directors. We also depend on the ability of our executive officers and other members of senior management to work effectively as a team. The loss of one or more of our executive officers, members of our senior management or directors could have a material adverse effect on our business, results of operations and financial condition. Moreover, as our business evolves, we may require additional or different management members, directors or consultants, and there can be no assurance that we will be able to locate, attract and retain them if and when they are needed.

Because our Hong Kong operations account for a substantial portion of our overall business, and substantially all of our Hong Kong business is derived from the sale of products to members in China, any material adverse change in our business relating to either Hong Kong or China would likely have a material adverse impact on our overall business.

In 2019 and 2018, approximately 81% and 88% of our revenue, respectively, was generated in Hong Kong. Substantially all of our Hong Kong revenues are derived from the sale of products that are delivered to members in China. This geographic concentration in our business means that events or conditions that could negatively impact this geographic region or our operations in this region, including the current economic challenges facing China and Hong Kong, are having and could in the future have a greater adverse impact upon our overall business and financial results than would be the case with a company having greater geographic diversification.

Our Hong Kong operations are being adversely affected by recent political and social developments in Hong Kong, and the negative impact on our operations and financial performance could continue or intensify.

Our headquarters and a majority of our employees are based in Hong Kong, and our Hong Kong subsidiary generates a substantial portion of our overall business. Hong Kong has recently experienced significant political unrest and social strife, including a series of large-scale protests. Hong Kong has historically served as a key location for meetings and events for our members, but these developments recently led us to curtail the number and scope of such meetings and events. These meetings and events are an important component of our product marketing and distribution efforts and we believe that this curtailment has negatively affected our operations and financial performance. If current conditions continue or further deteriorate, we anticipate that our business, financial condition and results of operations will be adversely affected.

Our operations in China are subject to compliance with a myriad of applicable laws and regulations, and any actual or alleged violations of those laws or government actions otherwise directed at us could have a material adverse impact on our business and the value of our company.

In contrast to our operations in other parts of the world, our China subsidiary has not implemented a direct sales model in China. The Chinese government permits direct selling only by organizations that have a license and has also adopted anti-pyramid selling and multilevel marketing legislation. We operate an e-commerce direct selling model in Hong Kong and recognize the revenue derived from sales to both Hong Kong and Chinese members as being generated in Hong Kong. Products purchased by members in China are delivered to third parties that act as the importers of record under agreements to pay applicable duties. In addition, through a Chinese entity, we sell products in China using an e-commerce retail model. Chinese members may elect to participate in either or both of the Chinese entity and the Hong Kong entity.

We previously submitted a preliminary application for a direct selling license in China in August 2015, but in 2019 a Chinese governmental authority recommended that we withdraw our application. We understand that the governmental authorities recommended that other companies with pending direct selling license applications also withdraw their applications. We applied to withdraw our application in November 2019, and the governmental authorities approved the withdrawal of our application shortly thereafter. We expect to reapply for a direct selling license in China when we believe that circumstances are again ripe for doing so. We are unable to predict whether and when we will be successful in obtaining a direct selling license to operate in China, and if we are successful, when we will be permitted to conduct direct selling operations and whether such operations would be profitable.

We continually evaluate our operations in China and Hong Kong for compliance with applicable laws and regulations, including seeking the input of outside professionals and certain Chinese authorities. This process can and has resulted in the identification of certain matters of potential noncompliance. We work on a continuing basis to satisfactorily address such matters, however there can be no assurance that adequate steps are taken or that applicable laws and regulations are properly interpreted.

Should the government authorities determine that our activities violate applicable laws and regulations, including China's direct selling, pyramid selling or multilevel marketing laws and regulations, or should new laws or regulations be adopted, there could be a material adverse effect on our business, financial condition and results of operations.

The Chinese government scrutinizes the activities of direct selling companies. Our business continues to be subject to regulations and examinations by municipal and provincial level regulators. At times, actions by government regulators have impacted our members' activities in certain locations and have resulted in a few cases of enforcement actions. In each of these cases, we helped our members with their defense of the legality of their conduct.

Our business operations and the value of our company can be adversely affected by Chinese government scrutiny of our operations, even if that scrutiny does not result in investigations of our operations. For example, one or more parties encouraged the Beijing City governmental authorities to conduct an investigation of our business, which resulted in a meeting in January 2016 involving members of our Beijing office staff, Beijing City governmental officials, and two complainants. Even though the Beijing City governmental officials advised our staff and the complainants at that meeting that there was insufficient evidence to warrant an investigation of us, mischaracterizations of the meeting immediately appeared in several "news reports." Similarly, a subsequent meeting between several Guangzhou City government officials and members of our Guangzhou office staff that resulted in our providing routine information about our operations to the government officials was mischaracterized in an online posting made immediately following the meeting. Although we remain in regular contact with Chinese government officials and take other steps to address the risks posed by these events, our business and the value of our company remain vulnerable to Chinese government scrutiny of our operations, whether or not initiated by third parties, which scrutiny could result in the Chinese or Hong Kong government taking action against us.

Various other factors could harm our business in Hong Kong and China, such as worsening economic conditions in Hong Kong or China, adverse local publicity, negative social media coverage, geopolitical or trade tensions between the U.S. and China or other events that may be out of our control. For example, in January 2019, China Central Television (CCTV) aired a segment alleging, among other things, that we conduct an illegal pyramid scheme in China. Several days later, in what we believe was an unrelated development, the Chinese government announced a comprehensive 100-day campaign focusing on companies involved in the sale of food, equipment, daily necessities, small home electrical appliances and services that are claimed to promote health. The Chinese government ministries in charge of this campaign indicated that they are targeting illegal practices in the industry, particularly the manufacture and sale of counterfeit and substandard products, and false advertising and misleading claims as to the health benefits of products and services. It is further understood that the campaign is specifically focused on the business practices of direct selling companies. Similarly, during the third quarter of 2007, we learned that the Chinese government was expected to impose a more intense enforcement program against illegal pyramid scheme activities (or "chain sale" activities in transliterated Chinese terms). In January 2019 we, like some of our peers, voluntarily decided to temporarily suspend our member activities, such as product roadshows, product trainings and larger company-sponsored events, in China as we did in 2007. We did this because we have learned that the 100-day campaign was announced in broad outlines by the central government, and the interpretation and enforcement of the campaign was delegated to the provincial and local governments. We consider it a top priority for our business to develop an understanding of and cooperate with all levels and jurisdictions of the government agencies and did not want to run the risk of being inadvertently entangled in the government enforcement actions as the provincial and local government formulate and implement their interpretive guidance and rule-making.

Although the 100-day campaign was due to expire on or about April 18, 2019, we are not aware of any information indicating that the campaign has formally concluded. However, on August 27, 2019, the Chinese government announced that it would conduct a “look-back review” to evaluate the 100-day campaign. As part of this review, we understand that various Chinese governmental agencies formed a working group to assess the 100-day campaign, particularly focusing on the health market and its supervision in certain provinces. We understand that during September 2019 the working group evaluated the performance and results of a number of organizations and governmental departments in these provinces and made recommendations for various improvements. It was noted that each province had opened a number of investigative cases, had successfully closed numerous cases, and had imposed various fines and penalties. We understand that the look-back review continued after September 2019, and we are not aware that this review has been completed. As a result, the business environment for health product companies operating in China continues to be challenging, which has recently been exacerbated by negative social media sentiment expressed for these types of companies. Our suspension of member activities currently remains in effect, and it may be necessary or advisable to repeat this or similar actions from time to time in the future, and such periods of reduced activity can and do have a material adverse effect on our business.

Although we attempt to work closely with both national and local Chinese governmental agencies in conducting our business, our efforts to comply with national and local laws may be harmed by a rapidly evolving regulatory climate, concerns about activities resembling violations of direct selling, pyramid selling or multi-level marketing legislation, subjective interpretations of laws and regulations, and activities by individual members that may violate laws notwithstanding our strict policies prohibiting such activities.

Any determination that our operations or activities, or the activities of our individual members, employee sales representatives, or importers of record are not in compliance with applicable laws and regulations could result in the imposition of substantial fines, extended interruptions of business, restrictions on our future ability to obtain business licenses or expand into new locations, changes to our business model, the termination of required licenses to conduct business, or other actions, any of which could materially harm our business, financial condition and results of operations.

Our recent loss of a significant number of members is adversely affecting our business, and if we cannot stabilize or increase the number of members our business could be further negatively impacted.

We distribute our products through independent members, and we depend upon them directly for all of our sales in most of our markets. Accordingly, our success depends in significant part upon our ability to attract, retain and motivate a large base of members, as well as a relatively small number of key members. Our members may terminate their services with us at any time and, like most direct selling organizations, we have a high rate of attrition. During 2019 we were not as effective as in the past in replacing terminated members. We had 41% fewer active members at December 31, 2019, as compared to December 31, 2018, which was a significant factor contributing to the decrease in our year-over-year sales. If we cannot stabilize or increase the number of our members, or if we lose one or more key member leaders, sales of our products could be further materially and adversely affected. The replacement of members could be difficult because, in our efforts to attract and retain members, we compete with other direct selling organizations, including but not limited to those in the personal care, cosmetic product and nutritional supplement industries.

Our number of active members or their productivity could further decline in the future. We cannot accurately predict fluctuations in the number or the productivity of members because we primarily rely upon existing members to enroll and train new members and to motivate new and existing members. Operating results could be adversely affected if our existing and new business opportunities and products do not generate sufficient economic incentive or interest to retain existing members and to attract new members.

The number and productivity of our members could be harmed by several factors, including:

- adverse publicity or negative perceptions regarding us, our products, our method of distribution or our competitors;
- lack of interest in, or the technical failure of, existing or new products;
- lack of interest in our existing compensation plan for members or in enhancements or other changes to that compensation plan;
- our actions to enforce our policies and procedures;

- regulatory actions or charges or private actions against us or others in our industry, such as the 100-day campaign initiated in China in January 2019 (as well as its extension and aftermath, including the related look-back review);
- general economic, business and political conditions, including the recent political unrest in Hong Kong;
- changes in management or the loss of one or more key member leaders;
- entry of new competitors, or new products or compensation plan enhancements by existing competitors, in our markets; and
- potential saturation or maturity levels in a given country or market which could negatively impact our ability to attract and retain members in such market.

Epidemics, such as the 2020 coronavirus outbreak, or natural disasters, terrorist attacks or acts of war may seriously harm our business.

Epidemics, natural disasters, terrorist attacks or acts of war may cause damage or disruption to us, our employees, our facilities and our members and customers, which could negatively impact our revenues, expenses and financial condition. For example, in early 2020 an outbreak of the coronavirus (COVID-19) was identified in Wuhan, China. The coronavirus has since spread within China and infections have been found in a number of countries around the world. The outbreak caused the Chinese government to implement powerful measures to control the virus, such as requiring businesses to close throughout various areas of China and restricting public gatherings and certain travel within the country. We conduct significant business in or near Wuhan and in 2019 generated approximately 81% of our revenue in Hong Kong, substantially all of which was derived from the sale of products to members in China. While the scope and impact of the coronavirus outbreak and related control measures are uncertain, these disruptions are expected to negatively impact our operations and financial results for at least the first quarter of 2020, as well as the operations of our third party logistics providers within certain provinces in China. This and other epidemics, such as the avian influenza, or natural disasters have in the past and could in the future adversely affect our business, financial condition and results of operations. Terrorist attacks, the national and international responses to terrorist attacks, and other acts of war or hostility, such as challenges to Chinese sovereignty claims in the South China Sea or Chinese objection to the Taiwan independence movement and the resultant tension in the Taiwan Strait, could materially and adversely affect our business, results of operations, and financial condition in ways that we currently cannot predict.

We experienced negative operating cash flows during the year ended December 31, 2019, and if this trend continues it could have a material adverse effect on our business and our stock price.

We experienced negative operating cash flows during the year ended December 31, 2019, primarily due to declines in our revenues being greater than the decreases in expenditures that we could manage. If we continue to experience these negative cash flows and our cash balance is substantially diminished, we may not be able to continue paying cash dividends to our stockholders, our ability to support our operations could be impaired and we may be required to seek debt or equity financing. However, we may not be able to obtain additional debt or equity financing on satisfactory terms, or at all, and any new financing could have a dilutive effect to our existing stockholders. Continued negative cash flows could have a material adverse effect on our business, results of operations and financial condition, as well as our stock price, and could eventually threaten our solvency. Negative cash flows and any related adverse market perception may also negatively affect our ability to attract new members and/or sell our products. There can be no assurance that we will be successful in maintaining an adequate level of cash resources.

We are currently involved in, and may in the future face, lawsuits, claims, and governmental proceedings and inquiries that could harm our business.

We are currently, and have in the past, been a party to lawsuits, claims and governmental proceedings and inquiries. As disclosed elsewhere in this report, on January 8, 2019, we and our executive officers were named in a putative securities class action lawsuit alleging in part that we made materially false and misleading statements regarding the legality of our business operations in China. Prosecuting and defending these and any other matters may require significant expense and attention of our management and can expose us to adverse publicity, regardless of the outcome. Further, in the event of an adverse outcome, we could be required to pay substantial damages, fines or penalties and cease or be prevented from conducting certain practices or activities.

The SEC is conducting a non-public investigation to determine whether there have been violations of the federal securities laws relating to the trading of our securities and/or the Company's public disclosures. We have fully cooperated with the SEC and continue to do so. The amount of time needed to resolve this matter is uncertain, and we cannot predict the outcome or whether we will face additional governmental inquiries or other actions. The SEC could bring enforcement actions against us or individuals, including our officers or directors. Such actions, if brought, could result in dispositions, judgments, settlements, injunctions, cease and desist orders, or other financial or non-financial penalties. The imposition of any sanctions or penalties, or the implementation of remedial measures could have a material adverse effect on our business.

Such matters can be complex, can extend for a protracted period of time, and can result in unpredictable expense. There can be no assurance that we will be able to successfully defend or resolve any such litigation, claims or governmental proceedings or inquiries, or that the significant money, time and effort spent in defending these matters, or any related adverse publicity, will not adversely affect our business, financial condition and results of operations.

Although virtually all of our members are independent contractors, improper member actions that violate laws or regulations could harm our business.

Virtually all of our members are independent contractors and, accordingly, we are not in a position to directly provide the same direction, motivation and oversight as we would if these members were our own employees. As a result, there can be no assurance that our members will participate in our marketing strategies or plans, accept our introduction of new products, or comply with our member policies and procedures. Extensive federal, state, local and foreign laws regulate our business, our products and our network marketing program. Because we operate in a number of foreign countries, our policies and procedures for our members differ due to the different legal requirements of each country in which we do business. While we have implemented member policies and procedures designed to govern member conduct and to protect the goodwill associated with our trademarks and trade names, it can be difficult to enforce these policies and procedures because of the large number of members and their independent status.

Given the size and diversity of our member force, we experience problems with members from time to time, especially with respect to our members in foreign markets. For example, if our members engage in illegal activities in China, those actions could be attributed to us. Chinese laws regarding how and when members may assemble and the activities that they may conduct, or the conditions under which the activities may be conducted, are subject to interpretations and enforcement that sometimes vary from province to province, among different levels of government, and from time to time. Members can be accused of violating one or more of the laws regulating these activities, notwithstanding training that we attempt to provide. Enforcement measures regarding these violations, which can include arrests, raise the uncertainty and perceived risk associated with conducting this business, especially among those who are aware of the enforcement actions but not the specific activities leading to the enforcement action. We believe that this has led some existing members in China - who are signed up as members in Hong Kong - to leave the business or curtail their selling activities and has led some potential members to choose not to participate. Among other things, we are managing this risk with more training and public relations efforts that are designed, among other things, to distinguish our company from businesses that make no attempt to comply with the law. This environment creates uncertainty about the future of doing this type of business in China generally and under our current business model, specifically.

In addition, members often desire to enter a market before we have received approval to do business in order to gain an advantage in the marketplace. Improper member activity in new geographic markets could result in adverse publicity and can be particularly harmful to our ability to ultimately enter these markets. Violations by our members of applicable law or of our policies and procedures in dealing with customers could reflect negatively on our products and operations, and harm our business reputation. In addition, it is possible that a judicial or administrative body could hold us civilly or criminally accountable based on vicarious liability because of the actions of our members. If any of the above or related events involving our members occur, our business, financial condition, or results of operations could be materially adversely affected.

Direct-selling laws and regulations may prohibit or severely restrict our direct sales efforts and cause our revenue and profitability to decline, and regulators could adopt new regulations that harm our business.

Our direct selling system is subject to extensive laws, governmental regulations, administrative determinations, court decisions and similar constraints. These laws and regulations are generally intended to prevent fraudulent or deceptive schemes, often referred to as "pyramid" schemes, which compensate participants for recruiting additional participants irrespective of product sales, use high pressure recruiting methods and/or do not involve legitimate products. They also seek to ensure that claims regarding the ability of participants to earn money are truthful and substantiated.

Complying with these widely varying and sometimes inconsistent rules and regulations can be difficult and may require the devotion of significant resources on our part. There can be no assurance that we or our members are in compliance with all of these regulations. Our failure or our members' failure to comply with these regulations or new regulations could lead to the imposition of significant penalties or claims and could negatively impact our business. If we are unable to continue business in existing markets or commence operations in new markets because of these laws, our revenue and profitability may decline.

We are also subject to the risk that new laws or regulations might be implemented or that current laws or regulations might change, which could require us to change or modify the way we conduct our business in certain markets. This could be particularly detrimental to us if we have to change or modify the way we conduct business in markets that represent a significant percentage of our revenue.

The high level of competition in our industry could adversely affect our business.

The business of marketing personal care, cosmetic, nutritional supplements, and lifestyle enhancement products is highly competitive. This market segment includes numerous manufacturers, members, marketers, and retailers that actively compete for the business of consumers both in the United States and abroad. The market is highly sensitive to the introduction of new products, which may rapidly capture a significant share of the market. Sales of similar products by competitors may materially and adversely affect our business, financial condition and results of operations.

We are subject to significant competition for the recruitment of members from other direct selling organizations, including those that market similar products. Many of our competitors are substantially larger than we are, offer a wider array of products, have far greater financial resources and many more active members than we have. Even more numerous are those medium- and small-sized, all privately held Chinese, Taiwanese and Hong Kong companies that are fierce competitors and are much closer to directly competing with us. Our ability to remain competitive depends, in significant part, on our success in recruiting and retaining members with our products, attractive compensation plan and other incentives. We believe that we have an attractive product line and that our compensation and incentive programs provide our members with significant earning potential. However, we cannot be sure that our programs for recruitment and retention of members will be successful.

Some of our competitors have employed or otherwise contracted for the services of our former officers, employees, consultants, and members, who may try to use information and contacts obtained while under contract with us for competitive advantage. While we seek to protect our information through contractual and other means, there can be no assurance that we will timely learn of such activity, have the resources to attempt to stop it, or have adequate remedies available to us.

Challenges by third parties to the legality of our business operations could harm our business.

We are also subject to the risk of private party challenges to the legality of our operations, including our direct selling system. The regulatory requirements concerning direct selling systems generally do not include "bright line" rules and are inherently fact-based and subject to judicial or administrative interpretation. An adverse judicial or administrative determination against us with respect to our direct selling system, or in proceedings not involving us directly but which challenge the legality of other direct selling marketing systems, could have a material adverse effect on our business. There is also risk that challenges and settlements involving other parties could provide incentives for similar actions by members against us and other direct selling companies. Moreover, challenges to our business system and operations in important markets may come from short sellers, hedge funds, other investors, bloggers and reporters. Other companies in our industry have recently faced such challenges. Any challenges regarding us or others in our industry could harm our business if such challenges result in the imposition of any fines or damages on our business, create adverse publicity, increase scrutiny or investigations of us or our industry, detrimentally affect our efforts to recruit or motivate members and attract customers, or interpret laws in a manner inconsistent with our current business practices.

An increase in the amount of compensation paid to members would reduce profitability.

We incur significant expense in the payment of compensation to our members, which represented approximately 46% of net sales during both 2019 and 2018. We compensate our members by paying commissions, bonuses, and certain awards and prizes. Factors impacting the overall commission payout include the growth and depth of the member network, the member retention rate, the type and scope of promotions and incentives, local promotional programs and business development agreements. Long-term promotions and incentives (lasting up to one year) can, in particular, result in uncertain ultimate cost. Any increase in compensation payments to members as a percentage of net sales will reduce our profitability.

Our compensation plan includes a cap that may be enforced on member compensation paid out on a weekly dollar limit or as a percentage of product sales. There can be no assurance that enforcement of this cap will ensure profitability (which depends on many other factors). Moreover, enforcement of this cap could cause key members affected by the cap to leave and join other companies.

Currency exchange rate fluctuations could lower our revenue and net income.

In 2019, 96% of our revenue was recorded by subsidiaries located outside of North America. Revenue transactions and related commission payments, as well as other incurred expenses, are typically denominated in the local currency. Accordingly, our international subsidiaries generally use the local currency as their functional currency. The results of operations of our international subsidiaries are exposed to foreign currency exchange rate fluctuations during consolidation since we translate into U.S. dollars using the average exchange rates for the period. As exchange rates vary, revenue and other operating results may differ materially from our expectations. Additionally, we may record significant gains or losses related to foreign-denominated cash and cash equivalents and the re-measurement of inter-company balances.

Our most significant foreign exchange exposure, the Hong Kong dollar, is for now pegged to the U.S. dollar. We also purchase a significant majority of inventories in U.S. dollars. Our foreign currency exchange rate exposure to the South Korean won, Taiwan dollar, Japanese yen, Chinese yuan, Russian ruble, Kazakhstani tenge, Singaporean dollar, Malaysian ringgit, Vietnamese dong, Thai baht, Indian rupee, Canadian dollar, Mexican peso, Peruvian sol and European euro collectively represented approximately 17% and 10% of our revenue in 2019 and 2018, respectively. Our foreign currency exchange rate exposure may increase in the near future as we develop opportunities in Southeast Asia, India, Canada, Central America, South America and Europe. Additionally, our foreign currency exchange rate exposure would significantly increase if the Hong Kong dollar were no longer pegged to the U.S. dollar. Finally, we also experience indirect exchange rate exposure due to the concentration of our sales to members residing in China and the impact of fluctuations in the value of the Chinese yuan on our members' purchasing power.

Given our inability to predict the degree of exchange rate fluctuations, we cannot estimate the effect these fluctuations may have upon future reported results, product pricing or our overall financial condition. Further, to date we have not attempted to reduce our exposure to short-term exchange rate fluctuations by using foreign currency exchange contracts.

Changes in tax or duty laws, and unanticipated tax or duty liabilities, could adversely affect our net income.

In the course of doing business we may be subject to various taxes, such as sales and use, value-added, and franchise. We are also subject to income taxes in the United States and numerous foreign jurisdictions. We earn a substantial portion of our income in foreign jurisdictions. Economic and political conditions make tax rules in any jurisdiction, including the United States, subject to significant change. There have been recent changes in U.S. tax law that impact how U.S. multinational corporations are taxed on foreign earnings. There have also been proposals to reform foreign tax laws that could significantly affect the Company's tax position. Although we cannot predict whether or in what form these proposals will pass, several of the proposals considered, if enacted into law, could have an adverse impact on our income tax expense and cash flows.

Our parent corporation is domiciled in the United States. Under tax treaties, we are eligible to receive foreign tax credits in the United States for taxes paid abroad. Taxes paid to foreign taxing authorities may exceed the credits available to us, resulting in the payment of a higher overall effective tax rate on our worldwide operations.

Our effective income tax rate in the future could be adversely affected by a number of factors, including changes in the mix of earnings in countries with differing statutory tax rates, changes in the valuation of deferred tax assets and liabilities, changes in tax laws, and the outcome of income tax audits in various jurisdictions around the world.

We are currently, and may in the future be subject to examinations of our tax returns and other tax matters by the U.S. Internal Revenue Service and other tax authorities and governmental bodies. We regularly assess the likelihood of an adverse outcome resulting from these examinations to determine the adequacy of our provision for taxes, which is subject to significant discretion. There can be no assurance as to the outcome of these examinations. If our effective tax rates were to increase, particularly in the U.S., or if the ultimate determination of taxes owed is for an amount in excess of amounts previously accrued, our financial results or operations could be adversely affected.

In addition, our operations are subject to regulations designed to ensure that appropriate levels of customs duties are assessed on the importation of our products. The failure to properly calculate, report and pay such duties when we are subject to them could have a material adverse effect on our financial condition and results of operations. Any change in the laws or regulations regarding such duties, or any interpretation thereof, could result in an increase in the cost of doing business.

Transfer pricing regulations affect our business and results of operations.

In many countries, including the United States, we are subject to transfer pricing and other tax regulations designed to ensure that appropriate levels of income are reported as earned by our United States or local entities and are taxed accordingly. We have adopted transfer pricing agreements with our subsidiaries to regulate inter-company transfers, which agreements are subject to transfer pricing laws that regulate the flow of funds between the subsidiaries and the parent corporation for product purchases, management services, and contractual obligations, such as the payment of member compensation. There can be no assurance that we will be found to be operating in compliance with transfer pricing laws, or that those laws would not be modified, which, as a result, may require changes in our operating procedures or otherwise may have a material adverse effect on our financial results or operations.

Our products and related activities are subject to extensive government regulation, which could delay, limit or prevent the sale of some of our products in some markets.

The formulation, manufacturing, packaging, labeling, importation, advertising, distribution, sale and storage of certain of our products are subject to extensive regulation by various federal agencies, including the Food and Drug Administration (the “FDA”), the FTC, the Consumer Product Safety Commission and the United States Department of Agriculture and by various agencies of the states, localities and foreign countries in which our products are manufactured, distributed and sold. For example, the FDA requires us and our suppliers to meet relevant current good manufacturing practice (cGMP) regulations for the preparation, packing and storage of foods and over-the-counter (OTC) drugs. We are also now required to report serious adverse events associated with consumer use of certain of our products. Other laws and regulations govern or restrict the claims that may be made about our products and the information that must be included and excluded on labels.

In markets outside the United States, prior to commencing operations or marketing new products, we may be required to obtain approvals, licenses, or certifications from a ministry of health or a comparable agency. Moreover, a foreign jurisdiction may pass laws that would prohibit the use of certain ingredients in their particular market. Compliance with these regulations can create delays and added expense in introducing new products to certain markets.

Failure by our members or us to comply with those regulations could lead to the imposition of significant penalties or claims and could materially and adversely affect our business. If we are not able to satisfy the various regulations, then we would have to cease sales of that product in that market. In addition, the adoption of new regulations or changes in the interpretation of existing regulations may result in significant compliance costs or discontinuation of product sales and may adversely affect the marketing of our products, resulting in significant loss of revenues.

We cannot predict the nature of any future laws, regulations, interpretations, or applications, nor can we determine what effect additional governmental regulations or administrative orders, when and if promulgated, could have on our business. These potential effects could include, however, requirements for the reformulation of certain products to meet new standards, the recall or discontinuance of certain products, additional recordkeeping and reporting requirements, expanded documentation of the properties of certain products, expanded or different labeling, or additional scientific substantiation. Any or all of these requirements could have a material adverse effect on our business, financial condition, or results of operations.

Failure of new products to gain member and market acceptance could harm our business.

An important component of our business is our ability to develop new products that create enthusiasm among our member force. If we fail to introduce new products on a timely basis, our member productivity could be harmed. In addition, if any new products fail to gain market acceptance, are restricted by regulatory requirements, or have quality problems, this would harm our results of operations. Factors that could affect our ability to continue to introduce new products include, among others, limited capital and human resources, government regulations, proprietary protections of competitors that may limit our ability to offer comparable products and any failure to anticipate changes in consumer tastes and buying preferences.

New regulations governing the marketing and sale of nutritional supplements could harm our business.

There has been an increasing movement in the United States and other markets to increase the regulation of dietary supplements, which could impose additional restrictions or requirements in the future. In the United States, for example, some legislators and industry critics continue to push for increased regulatory authority by the FDA over nutritional supplements. Our business could be harmed if more restrictive legislation is successfully introduced and adopted in the future. In particular, the adoption of legislation requiring FDA approval of supplements or ingredients could delay or inhibit our ability to introduce new supplements. We face similar pressures in our other markets, particularly in China where certain government ministries announced in January 2019 a comprehensive 100-day campaign focusing on companies involved in the sale of certain products, including nutritional supplements and health products. This campaign, which may not have formally concluded, is also currently the subject of a “look-back review” being conducted by various Chinese governmental agencies, and could result in new legislation or regulation. In the United States, the FTC Guides Concerning the Use of Endorsements and Testimonials in Advertising (“Guides”) require disclosure of material connections between an endorser and the company they are endorsing and require the disclosure of typical results when these are different from those reported by the endorser. The requirements and restrictions of the Guides may diminish the impact of our marketing efforts and negatively impact our sales results. If we or our members fail to comply with these Guides, the FTC could bring an enforcement action against us and we could be fined and/or forced to alter our operations. Our operations also could be harmed if new laws or regulations are enacted that restrict our ability to market or distribute nutritional supplements or impose additional burdens or requirements on nutritional supplement companies or require us to reformulate our products.

Regulations governing the production and marketing of our personal care products could harm our business.

Our personal care products are subject to various domestic and foreign laws and regulations that regulate cosmetic products and set forth regulations for determining whether a product can be marketed as a “cosmetic” or requires further approval as an over-the-counter drug. A determination that our cosmetic products impact the structure or function of the human body, or improper marketing claims by our members, may lead to a determination that such products require pre-market approval as a drug. Such regulations in any given market can limit our ability to import products and can delay product launches as we go through the registration and approval process for those products. Furthermore, if we fail to comply with these regulations, we could face enforcement action against us and we could be fined, forced to alter or stop selling our products and/or required to adjust our operations. Our operations also could be harmed if new laws or regulations are enacted that restrict our ability to market or distribute our personal care products or impose additional burdens or requirements on the contents of our personal care products or require us to reformulate our products.

If we are found not to be in compliance with good manufacturing practices our operations could be harmed.

Regulations on good manufacturing practices and adverse event reporting requirements for the nutritional supplement industry are in effect and require good manufacturing processes for us and our vendors, including stringent vendor qualifications, ingredient identification, manufacturing controls and record keeping. We are also required to report serious adverse events associated with consumer use of our products. Our operations could be harmed if regulatory authorities make determinations that we or our vendors are not in compliance with the regulations. A finding of noncompliance may result in administrative warnings, penalties or actions impacting our ability to continue selling certain of our products. In addition, compliance with these regulations has increased and may further increase the cost of manufacturing certain of our products as we work with our vendors to assure they are qualified and in compliance.

Failure to comply with domestic and foreign laws and regulations governing product claims and advertising could harm our business.

Our failure to comply with FTC or state regulations, or with regulations in foreign markets that cover our product claims and advertising, including direct claims and advertising by us, as well as claims and advertising by members for which we may be held responsible, may result in enforcement actions and imposition of penalties or otherwise materially and adversely affect the distribution and sale of our products. Our claims about the level of financial success that can be expected by our members are also subject to FTC review and enforcement. Member activities in our existing markets that violate applicable governmental laws or regulations could result in governmental or private actions against us in markets where we operate. Given the size of our member force, we cannot ensure that our members will comply with applicable legal requirements.

Adverse publicity associated with our products, ingredients or network marketing program, or those of similar companies, could harm our financial condition and operating results.

Adverse publicity concerning any actual or claimed failure by us or our members to comply with applicable laws and regulations regarding product claims and advertising, good manufacturing practices, the regulation of our network marketing program, the licensing of our products for sale in our target markets or other aspects of our business, whether or not resulting in enforcement actions or the imposition of penalties, could have an adverse effect on our goodwill and could negatively affect our ability to attract, motivate and retain members, which would negatively impact our ability to generate revenue. There have been several instances, including one recent instance, where adverse publicity in China has harmed our business. See “Risk Factors - Our operations in China are subject to a myriad of applicable laws and regulations...”. Further, we cannot ensure that all members will comply with applicable legal requirements relating to the advertising, labeling, licensing or distribution of our products.

In addition, our members’ and consumers’ perception of the safety and quality of our products and ingredients, as well as similar products and ingredients distributed by other companies, can be significantly influenced by media attention, publicized scientific research or findings, widespread product liability claims and other publicity concerning our products or ingredients or similar products and ingredients distributed by other companies. Adverse publicity, whether or not accurate or resulting from consumers’ use or misuse of our products, that associates consumption of our products or ingredients or any similar products or ingredients with illness or other adverse effects, questions the benefits of our or similar products or claims that any such products are ineffective, inappropriately labeled or have inaccurate instructions as to their use, could negatively impact our reputation or the market demand for our products.

We are subject to risks relating to product concentration and lack of revenue diversification.

Although we have in recent years expanded our line of products, we derive more than 10% of our total revenue from each of our *Premium Noni Juice, Enhanced Essential Probiotics* and *Triotein™* products. Further, we currently source each such product from a single supplier. If demand decreases significantly, government regulation restricts their sale, we are unable to adequately source or deliver the products, or we are unable to offer the products for any reason without suitable replacements, our business, financial condition and results of operations could be materially and adversely affected. Our future success will also depend on our ability to reduce our dependence on these few products by developing and introducing new products and product or feature enhancements in a timely manner. Even if we are able to develop and commercially introduce new products and enhancements, they may not achieve market acceptance and the revenue generated from these new products and enhancements may not offset the costs, which could substantially impair our business, financial condition and results of operations.

We rely on a limited number of independent third parties to manufacture and supply our products.

All of our products are manufactured by a limited number of independent third parties. There is no assurance that our current manufacturers will continue to reliably supply products to us at the level of quality we require. If a key manufacturer suffers liquidity problems or experiences operational or other problems assisting with our products, our results could suffer. In the event any of our third-party manufacturers become unable or unwilling to continue to provide the products in required volumes and quality levels at acceptable prices, we will be required to identify and obtain acceptable replacement manufacturing sources or replacement products. There is no assurance that we will be able to obtain alternative manufacturing sources or products or be able to do so on a timely basis. An extended interruption in the supply of certain of our products may result in a substantial loss of revenue. In addition, any actual or perceived degradation of product quality as a result of our reliance on third party manufacturers may have an adverse effect on revenue or result in increased product returns.

Growth may be impeded by the political and economic risks of entering and operating in foreign markets.

Our ability to achieve future growth is dependent, in part, on our ability to continue our international expansion efforts. However, there can be no assurance that we would be able to grow in our existing international markets, enter new international markets on a timely basis, or that new markets would be profitable. We must overcome significant regulatory and legal barriers before we can begin marketing in any foreign market.

Also, it is difficult to assess the extent to which our products and sales techniques would be accepted or successful in any given country. In addition to significant regulatory barriers, we may also encounter problems conducting operations in new markets with different cultures and legal systems from those elsewhere. We may be required to reformulate certain of our products before commencing sales in a given country. Once we have entered a market, we seek to adhere to the regulatory and legal requirements of that market. No assurance can be given that we would be able to successfully reformulate our products in any of our current or potential international markets to meet local regulatory requirements or attract local customers. The failure to do so could have a material adverse effect on our business, financial condition, and results of operations. There can be no assurance that we would be able to obtain and retain necessary permits and approvals.

In many markets, other direct selling companies already have significant market penetration, the effect of which could be to desensitize the local member population to a new opportunity or to make it more difficult for us to recruit qualified members. There can be no assurance that, even if we are able to commence operations in foreign countries, there would be a sufficiently large population of potential members inclined to participate in a direct selling system offered by us. We believe our future success could depend in part on our ability to seamlessly integrate our business methods, including member compensation plan, across all markets in which our products are sold. There can be no assurance that we would be able to further develop and maintain a seamless compensation program.

We are subject to anti-bribery laws, including the U.S. Foreign Corrupt Practices Act.

We are subject to anti-bribery laws, including the U.S. Foreign Corrupt Practices Act ("FCPA"), which generally prohibit companies and their intermediaries from making improper payments for the purpose of obtaining or retaining business as well as requiring companies and their intermediaries to maintain accurate books and records. In recent years there has been a substantial increase in anti-bribery law enforcement activity by the Department of Justice ("DOJ") and the SEC relating to business operations within certain countries in which we operate, including China. For example, in 2017, a U.S. based direct selling company announced that it was the target of an investigation being conducted by the SEC to determine whether certain activities related to the direct selling company's operations in China violated the FCPA. Also, in 2017, another U.S. based direct selling company announced that it had initiated a voluntary probe of its operations in China to determine if violations of the FCPA had occurred.

Our policies mandate compliance with anti-bribery laws by our employees and agents, including the requirements to maintain accurate information and internal controls. However, we may be liable for actions of our employees and agents, even if such actions are inconsistent with our policies. Being subject to an investigation by the DOJ or the SEC for an alleged violation of the FCPA could cause us to incur significant expenses and distractions that could adversely affect our business. Violations of the FCPA, or a similar anti-bribery law, may result in criminal or civil sanctions, including contract cancellations or debarment, and loss of reputation, which could have a material adverse effect on our results of operations and financial condition.

Recently enacted tariffs, other potential changes to tariff and import/export regulations, and ongoing trade disputes between the United States and other jurisdictions, particularly China, may have a negative effect on global economic conditions and our business, financial results and financial condition.

The United States recently enacted tariffs on certain items. Further, there are ongoing discussions and activities regarding changes to other U.S. trade policies and treaties. In response, a number of our markets, including China, have implemented tariffs on U.S. imports or otherwise imposed non-tariff barriers such as slow-walking custom clearance of American-made products in response to these U.S. actions. These developments, together with the threat of new tariffs and non-tariff barriers, may have a material adverse effect on global economic conditions and the stability of global financial markets, and they may significantly reduce global trade and, in particular, trade between China and the United States. Any of these factors could depress economic activity, create anti-American consumer sentiment, restrict our access to suppliers or customers and have a material adverse effect on our business, financial condition and results of operations. In addition, any actions by non-U.S. markets to implement further trade policy changes, including limiting foreign investment or trade, increasing regulatory scrutiny or taking other actions which impact U.S. companies' ability to obtain necessary licenses or approvals could negatively impact our business.

These tariffs and other policy changes are subject to a number of uncertainties. The ultimate reaction of other countries, and the individuals in each of these countries, and the impact of these tariffs or other actions on the United States, China, the global economy and our business, financial condition and results of operations, cannot be predicted at this time.

We may be held responsible for certain taxes or assessments relating to the activities of our members and service providers, which could harm our financial condition and operating results.

Our members and service providers are subject to taxation, and in some instances, legislation or governmental agencies impose an obligation on us to collect the taxes, such as value added taxes, and to maintain appropriate records. In addition, we are subject to the risk in some jurisdictions of being responsible for social security and similar taxes with respect to our members.

We may be unable to protect or use our intellectual property rights.

We rely on trade secret, copyright and trademark laws and confidentiality agreements with employees and third parties, all of which offer only limited protection of our confidential information and trademarks. Moreover, the laws of some countries in which we market our products may afford little or no effective protection of our intellectual property rights. The unauthorized copying, use or other misappropriation of our confidential information, trademarks and other intellectual property could enable third parties to benefit from such property without paying us for it. This could have a material adverse effect on our business, operating results and financial condition. If we resort to legal proceedings to enforce our intellectual property rights, the proceedings could be burdensome, expensive and result in inadequate remedies. It is also possible that our use of our intellectual property rights could be found to infringe on prior rights of others and, in that event, we could be compelled to stop or modify the infringing use, which could be burdensome and expensive.

We do not have a comprehensive product liability insurance program and product liability claims could hurt our business.

Currently, we do not have a comprehensive product liability insurance program, although the insurance carried by our suppliers may cover certain product liability claims against us. As a marketer of dietary supplements, cosmetics and other products that are ingested by consumers or applied to their bodies, we may become subjected to various product liability claims, including that:

- our products contain contaminants or unsafe ingredients;
- our products include inadequate instructions as to their uses; or
- our products include inadequate warnings concerning side effects and interactions with other substances.

If our suppliers' product liability insurance fails to cover product liability claims or other product liability claims, or any product liability claims exceeds the amount of coverage provided by such policies or if we are unsuccessful in any third party claim against the manufacturer or if we are unsuccessful in collecting any judgment that may be recovered by us against the manufacturer, we could be required to pay substantial monetary damages which could materially harm our business, financial condition and results of operations. As a result, we may become required to pay high premiums and accept high deductibles in order to secure adequate insurance coverage in the future. Especially since we do not have direct product liability insurance, it is possible that product liability claims and the resulting adverse publicity could negatively affect our business.

Failure to maintain effective internal controls in accordance with the Sarbanes-Oxley Act of 2002 could negatively impact our business and the market price of our stock.

We are required by federal securities laws to document and test our internal control procedures in order to satisfy the requirements of the Sarbanes-Oxley Act of 2002 (“Sarbanes-Oxley”), which requires annual management assessments of the effectiveness of internal control over financial reporting. Effective internal controls are necessary for us to provide reliable financial reports and to effectively prevent fraud. The SEC’s Sarbanes-Oxley rules require us to include a report by management on the effectiveness of our internal control over financial reporting in our Annual Reports on Form 10-K. In addition, our independent registered public accounting firm must report on the effectiveness of the internal control over financial reporting. Although we review internal control over financial reporting in order to ensure compliance with the SEC’s Sarbanes-Oxley rules, if we fail to maintain effective internal control over financial reporting, we could be required to take costly and time-consuming corrective measures to remedy any number of deficiencies, significant deficiencies or material weaknesses, be required to restate the affected historical financial statements, be subjected to investigations and/or sanctions by federal and state securities regulators, and be subjected to civil lawsuits by stockholders. For instance, as described in “Item 9A. - Controls and Procedures” in our Annual Report on Form 10-K filed with the SEC for the year ended December 31, 2018, we identified a material weakness in our internal control over financial reporting as of December 31, 2018. Management, with oversight from the Audit Committee, implemented a plan to remediate this material weakness and completed remediation during the fourth quarter of 2019. While the existence of this material weakness did not result in a restatement of previously issued interim or annual consolidated financial statements, we incurred substantial costs and utilized meaningful resources to remediate the material weakness during 2019. Any future failure to maintain effective internal control over financial reporting could result in the foregoing identified consequences and could cause investors to lose confidence in our reported financial information and in our company and could cause a decline in the market price of our stock.

We rely on and are subject to risks associated with our reliance upon information technology systems.

Our success is dependent on the accuracy, reliability, and proper use of information processing systems and management information technology. Our information technology systems are designed and selected to facilitate order entry and customer billing, maintain member records, accurately track purchases and member compensation payments, manage accounting operations, generate reports, and provide customer service and technical support. Any interruption in these systems could have a material adverse effect on our business, financial condition, and results of operations.

There can be no assurance that there will not be delays or interruptions in our information technology services. An interruption or delay in availability of these services could, if it lasted long enough, prevent us from accepting orders, cause members to leave our business, or otherwise materially adversely affect our business.

System disruptions or failures, cybersecurity risks, and compromises of data could harm our business.

Because of our diverse geographic operations and our internationally applicable member compensation plans, our business is highly dependent on the secure and efficient functioning of our information technology systems, and the security of personal and sensitive business data. We collect certain personal information, including payment data, from members and consumers, as well as our employees. We also develop and maintain sensitive and proprietary business information. Any systems failure or interruption, breach in security, or loss of data, whatever the cause, could adversely affect our operations and financial results.

Systems disruptions and data breaches can derive from natural disasters, accidental technological events or human error, but can also result from fraud or malice on the part of external or internal parties. Our systems, networks and software, like those of other companies, have been and are likely to continue to be, the target of cybersecurity threats and attacks, which may range from isolated or random attempts to sophisticated and targeted measures directed specifically at us. The risk of a systems disruption or data breach, particularly through cyber-attack or cyber intrusion, has increased as the number, intensity and sophistication of attempted attacks and intrusions from around the world have increased. A material systems disruption or data breach affecting us could damage our reputation, deter members from purchasing our products, and result in cost and liability to us.

Although we have implemented technical and administrative safeguards to maintain the security and integrity of our information technology systems and data, there can be no assurance that our security efforts and measures will be effective in a continually evolving threat environment. In addition to the risks presented by malicious actors and natural disasters, many systems disruptions and data breaches are reportedly caused by human error. Therefore, despite our security policies and mandatory training, our systems and data are exposed to the risk that human error could either create a vulnerability that could be exploited by an attacker, or expose our systems and data to unintended risk of compromise. In addition, as described below, most of our information technology systems and data are hosted by third-party vendors over which we have limited control. We anticipate that we will be required to expend additional resources in order to continue to enhance our technical and administrative safeguards, and to investigate and remediate any vulnerabilities in our systems, networks and software.

In any case, a data breach or other significant disruption of our information systems or those related to our third party vendors, including as a result of cyber-attacks, could (1) disrupt the proper functioning of our systems and networks and therefore operations, (2) result in the unauthorized access to, and destruction, loss, theft, misappropriation or release of personal, confidential, sensitive or otherwise valuable data or other information, (3) result in a violation of applicable privacy, cybersecurity, data breach notification requirements under applicable laws, regulations and contractual provisions, subjecting us to additional regulatory scrutiny, and exposing us to possible fines, lawsuits and related financial liability, (4) require significant management attention and financial resources to investigate and remedy the breach or disruption, and (5) harm our reputation, cause a decrease in the number of our members and revenue, and otherwise damage our business. The occurrence of any of the foregoing could have a material adverse effect on our business, financial condition or results of operations.

Our systems, software and data reside on third-party servers, exposing us to risks that disruption or intrusion of those servers could temporarily or permanently interrupt our access and damage our business.

Most of our systems, software and data reside in the “cloud” on servers operated by third-party vendors to which we have limited access. We assess the risks presented by these third-party vendors, and our contracts with them contain representations, warranties and other provisions related to the security of our data, and of the systems and software on which we rely. We are, however, limited in our ability to mitigate the risks of a systems disruption or data breach affecting our third-party vendors. Moreover, any delay or failure in payment of the third-party vendors, disputes with such vendors, or business interruption or failure of the third-party vendors could result in loss of or interruption in access to our systems, software or data. It is possible that our systems, software and data could in the future be moved to servers of different third parties or to our own servers. Any such move could result in temporary or permanent loss of access to our systems, software or data. Any protracted loss of such access would materially and adversely affect our business, financial condition and results of operations.

Disappointing quarterly revenue or operating results could cause the price of our common stock to fall.

Our quarterly revenue and operating results are difficult to predict and may fluctuate significantly from quarter to quarter. If our quarterly revenue or operating results fall below the expectations of investors or securities analysts, the price of our common stock could fall substantially.

Our common stock is particularly subject to volatility because of the industry and markets in which we operate.

The market prices of securities of direct selling companies have been extremely volatile, particularly those of companies that derive a substantial portion of their revenue from China and/or Hong Kong. These companies have experienced stock market price fluctuations that have often been disproportionate to their operating performance. These broad fluctuations could adversely affect the market price of our common stock.

Our common stock continues to experience wide fluctuations in trading volumes and prices. This may make it more difficult for holders of our common stock to sell shares when they want and at prices they find attractive.

The public market for our common stock has historically been very volatile experiencing wide fluctuations in trading volumes and prices. There are a number of factors that may contribute to this volatility, including the following:

- active participation of speculative traders in our stock (including short sellers);
- market rumors regarding our business operations;

- government scrutiny of our business;
- adverse publicity related to our business or industry; and
- fluctuations in our operating results.

This market volatility for our stock may make it more difficult for holders of our stock to sell shares when they want and at prices they find attractive. There can be no assurance that a larger or more liquid market will be developed or maintained for our common stock.

Future sales by us or our existing stockholders could depress the market price of our common stock.

If we or our existing stockholders sell a large number of shares of our common stock, the market price of our common stock could decline significantly. Further, even the perception in the public market that we or our existing stockholders might sell shares of common stock could depress the market price of our common stock.

Item 1B. UNRESOLVED STAFF COMMENTS

Not applicable.

Item 2. PROPERTIES

In January 2019, we relocated our corporate headquarters from Rolling Hills Estates, California, to Hong Kong. We renewed our lease for 7,300 square feet of office space in Hong Kong in November 2017 with a term expiring in February 2021, and in May 2018 we entered into a lease for 2,300 square feet of additional office space in the same location in Hong Kong with a term expiring in February 2021.

We continue to lease 4,900 square feet of office space in Rolling Hills Estates, California with a term expiring in September 2025. To help further develop the market for our products in North America, we lease retail space in Monterey Park, California; Richmond, British Columbia; and Metuchen, New Jersey.

We lease nine branch offices throughout China, and additional office space in Japan, Taiwan, South Korea, Singapore, Malaysia, Vietnam, Indonesia, Thailand, India, and the Cayman Islands. We also lease a multi-purpose facility and factory in Zhongshan, China and 11 service stations throughout the city of Guangzhou, China that serve or will in the future serve the needs of our Chinese consumers. We are also a party to a lease for office and retail space in Peru. We contract with third parties for fulfillment and distribution operations in all of our international markets. We believe that our existing office space is in good condition, and is suitable and adequate for the conduct of our business.

Item 3. LEGAL PROCEEDINGS

On January 8, 2019, the Company and its two executive officers were named in a putative securities class action filed in the United States District Court for the Central District of California, captioned *Kauffman v. Natural Health Trends Corp.*, Case No. 2:19-cv-00163. The complaint purports to assert claims on behalf of all persons who purchased or otherwise acquired our common stock between April 27, 2016 and January 5, 2019, inclusive, under (i) Section 10(b) of the Securities Exchange Act of 1934 (“Exchange Act”) and Rule 10b-5 promulgated thereunder against the Company and Chris T. Sharng and Timothy S. Davidson (together, the “Individual Defendants”), and (ii) Section 20(a) of the Exchange Act against the Individual Defendants. The complaint alleges, in part, that the Company made materially false and misleading statements regarding the legality of its business operations in China, including running an allegedly illegal multilevel marketing business. The complaint seeks an indeterminate amount of damages, plus interest and costs. On May 3, 2019, the court issued an order appointing Xia Yang as lead plaintiff and appointing The Rosen Law Firm, P. A. as lead counsel. On June 3, 2019, lead plaintiff filed an amended complaint. On June 27, 2019, the parties filed a joint stipulation seeking to postpone briefing on defendants’ motion to dismiss to allow the parties to continue ongoing discussions, which stipulation was entered by the court on July 1, 2019. On September 6, 2019, Defendants filed a motion to dismiss the amended complaint. After full briefing and oral argument, the court issued an order on December 20, 2019, dismissing the complaint for failure to adequately plead any false or misleading statement and ordering that any amended complaint be filed on or before January 13, 2020. On January 13, 2020, plaintiff filed a notice of intent not to file an amended complaint. On January 17, 2020, the court issued an order dismissing the action with prejudice and ordering that judgment be entered for Defendants. On February 14, 2020, Plaintiff filed a notice of appeal to the Ninth Circuit Court of Appeals. Plaintiff’s opening brief is currently due on June 1, 2020, and Defendants’ responding brief is currently due on July 1, 2020. Defendants believe that these claims are without merit and intend to vigorously defend against them.

Item 4. MINE SAFETY DISCLOSURES

Not applicable.

Part II**Item 5. MARKET FOR REGISTRANT’S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES****Market Information**

Our common stock is currently traded on the NASDAQ Capital Market (“Nasdaq”) under the symbol “NHTC.” On March 5, 2020, the closing price of our common stock as reported by Nasdaq was \$3.75 per share.

Holders of Record

At March 5, 2020, there were approximately 100 record holders of our common stock (although we believe that the number of beneficial owners of our common stock is substantially greater).

Purchases of Equity Securities by the Issuer and Affiliated Purchasers

A summary of the Company’s purchases of shares of its common stock during the three months ended December 31, 2019 is as follows:

Period	Total Number of Shares Purchased ^(a)	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs ^(b)	Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Plans or Programs (in thousands) ^(c)
October 1-31, 2019	—	\$ —	—	\$ 26,762
November 1-30, 2019	—	\$ —	—	\$ 26,762
December 1-31, 2019	97,785	\$ 5.64	97,785	\$ 26,210

(a) The shares were purchased in open market transactions.

(b) On January 12, 2016, the Board of Directors authorized an increase to our stock repurchase program first approved on July 28, 2015 from \$15.0 million to \$70.0 million. Repurchases are expected to be executed to the extent that our earnings and cash-on-hand allow, and will be made in accordance with all applicable securities laws and regulations, including Rule 10b-18 of the Exchange Act. For all or a portion of the authorized repurchase amount, we may enter into one or more plans that are compliant with Rule 10b5-1 of the Exchange Act that are designed to facilitate these purchases. The stock repurchase program does not require us to acquire a specific number of shares, and may be suspended from time to time or discontinued. During December 2019, the Company purchased a total of 97,785 shares of common stock for an aggregate purchase price of \$552,000, plus transaction costs.

(c) As of December 31, 2019, \$26.2 million of the \$70.0 million stock repurchase program first approved on July 28, 2015 and increased on January 12, 2016 remained available for future purchases. The after-tax equivalent remaining available is \$21.9 million (see Note 9 to the consolidated financial statements).

Dividends

During 2020 and 2021, the Company expects to pay a quarterly cash dividend of \$0.20 on each share of common stock outstanding. However, any future cash dividends will be at the sole discretion of the Board of Directors, and will depend on the Company’s results of operations, financial condition, capital requirements and other factors considered relevant by the Board of Directors.

Item 6. SELECTED FINANCIAL DATA

Not applicable under smaller reporting company disclosure rules.

Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Business Overview

We are an international direct-selling and e-commerce company. Subsidiaries controlled by us sell personal care, wellness, and “quality of life” products under the “NHT Global” brand. Our wholly-owned subsidiaries have an active physical presence in the following markets: the Americas, which consists of the United States, Canada, Cayman Islands, Mexico and Peru; Greater China, which consists of Hong Kong, Taiwan and China; Southeast Asia, which consists of Singapore, Malaysia, Thailand and Vietnam; South Korea; Japan; India; and Europe. We also operate in Russia and Kazakhstan through our engagement with a local service provider. See Note 13 of the Notes to Consolidated Financial Statements in “Item 8. Financial Statements and Supplementary Data” of this report for further information about our net sales by geographic area.

As of December 31, 2019, we were conducting business through 57,410 active members, compared to 97,840 in 2018. We consider a member “active” if they have placed at least one product order with us during the preceding year. Our priority is to focus our resources in our most promising markets, which we consider to be Greater China and countries where our existing members have the connections to recruit prospects and sell our products, such as Southeast Asia, India, South America and Europe. For further information regarding some of the risks associated with our loss of members, see “Item 1A. Risk Factors - Our recent loss of a significant number of members is adversely affecting our business...”.

We generate approximately 96% of our net sales from subsidiaries located outside North America, with sales of our Hong Kong subsidiary representing 81% of net sales in the latest fiscal year. Because of the size of our foreign operations, operating results can be impacted negatively or positively by factors such as foreign currency fluctuations, and economic, political and business conditions around the world. In addition, our business is subject to various laws and regulations, in particular, regulations related to direct selling activities that create uncertain risks for our business, including improper claims or activities by our members and potential inability to obtain necessary product registrations. For further information regarding some of the risks associated with the conduct of our business in China and Hong Kong, see “Item 1A. Risk Factors,” and more specifically under the captions “Risk Factors - Because our Hong Kong operations account for a substantial portion of our overall business...”, “Risk Factors - Our Hong Kong operations are being adversely affected by recent political and social developments in Hong Kong...”, and “Risk Factors - Our operations in China are subject to compliance with a myriad of applicable laws and regulations...”.

China has been and continues to be our most important business development project. We operate an e-commerce direct selling model in Hong Kong that generates revenue derived from the sale of products to members in Hong Kong and elsewhere, including China. Substantially all of our Hong Kong revenues are derived from the sale of products that are delivered to members in China. Through a separate Chinese entity, we operate an e-commerce retail platform in China. We believe that neither of these activities require a direct selling license in China, which we do not currently hold. We previously submitted a preliminary application for a direct selling license in China in August 2015, but in 2019 a Chinese governmental authority recommended that we withdraw our application. We understand that the governmental authorities recommended that other companies with pending direct selling license applications also withdraw their applications. We applied to withdraw our application in November 2019, and the governmental authorities approved the withdrawal of our application shortly thereafter. In connection with the withdrawal of our application, we expect that we will soon receive a refund of a consumer protection fund deposit of CNY 20 million (\$2.9 million as of December 31, 2019) that we made in connection with the submission of our application. We expect to reapply for a direct selling license in China when we believe that circumstances are again ripe for doing so. If we are ultimately able to obtain a direct selling license in China, we believe that the incentives inherent in the direct selling model in China would incrementally benefit our existing business. We do not expect that any increased sales in China derived from obtaining a direct selling license would initially be material and, in any event may be partially offset by the higher fixed costs associated with the establishment and maintenance of required service centers, branch offices, manufacturing facilities, certification programs and other legal requirements. We are unable to predict whether and when we will be successful in obtaining a direct selling license to operate in China, and if we are successful, when we will be permitted to conduct direct selling operations and whether such operations would be profitable.

On January 8, 2019, the Chinese government announced a 100-day campaign focused on companies involved in the sale of food, equipment, daily necessities, small home electrical appliances and services that are claimed to promote health. The Chinese government ministries in charge of this campaign indicated that they are targeting illegal practices in the industry, particularly the manufacture and sale of counterfeit and substandard products, and false advertising and misleading claims as to the health benefits of products and services. It is understood that the campaign is specifically focused on the business practices of direct selling companies. During the campaign, we understand that the government is not issuing any additional direct selling licenses, is not issuing certifications of quality or other approvals of various healthcare products, is reviewing its regulatory oversight of the industry, and is prohibiting companies from conducting large distributor meetings. Since it was implemented, the campaign and associated negative media coverage have had a significant adverse impact on our business, as consumers have widely curtailed their purchases within the affected industries. We, like some of our peers, voluntarily decided in January 2019 to temporarily suspend our member activities, such as product roadshows, product trainings and larger company-sponsored events, in China. We did this because we have learned that the 100-day campaign was announced in broad outlines by the central government, and the interpretation and enforcement of the campaign was delegated to the provincial and local governments. We consider it a top priority for our business to develop an understanding of and cooperate with all levels and jurisdictions of the government agencies, and did not want to run the risk of being inadvertently entangled in government enforcement actions as the provincial and local governments formulate and implement their interpretive guidance and rule-making. Although the 100-day campaign was due to expire on or about April 18, 2019, we are not aware of any information indicating that the campaign has formally concluded. However, on August 27, 2019, the Chinese government announced that it would conduct a “look-back review” to evaluate the 100-day campaign. As part of this review, we understand that various Chinese governmental agencies formed a working group to assess the 100-day campaign, particularly focusing on the health market and its supervision in certain provinces. We understand that during September 2019 the working group evaluated the performance and results of a number of organizations and governmental departments in these provinces and made recommendations for various improvements. It was noted that each province had opened a number of investigative cases, had successfully closed numerous cases, and had imposed various fines and penalties. We understand that the look-back review continued after September 2019, and we are not aware that this review has been completed. As a result, the business environment for health product companies operating in China continues to be challenging, which has recently been exacerbated by negative social media sentiment expressed for these types of companies. Our suspension of member activities currently remains in effect, and it may be necessary or advisable to repeat this or similar actions from time to time in the future. We believe that the campaign, as well as its extension and aftermath (including the look-back review), will continue to negatively impact our business in China in the near-term, but will ultimately benefit us and Chinese consumers in the long-term as purveyors of substandard products are driven from the market.

In early 2020 an outbreak of the coronavirus (COVID-19) was identified in Wuhan, China. The coronavirus has since spread within China and infections have been found in a number of countries around the world. The outbreak caused the Chinese government to implement powerful measures to control the virus, such as requiring businesses to close throughout various areas of China and restricting public gatherings and certain travel within the country. We conduct significant business in or near Wuhan and, as indicated above, in 2019 generated approximately 81% of our revenue in Hong Kong, substantially all of which was derived from the sale of products to members in China. While the scope and impact of the outbreak and related control measures are uncertain, we are taking steps to adapt some of our marketing programs, such as relying on certain product promotions and webcast training, to overcome the physical restrictions imposed in response to the outbreak. We also determined to move our first half major event from March into the second half of 2020, as the health and safety of our employees, members and customers is a top priority. The severity of the impact on us will depend on future developments, including the duration and spread of the outbreak, and related control measures. These disruptions are expected to negatively impact our operations and financial results for at least the first quarter of 2020, as well as the operations of our third party logistics providers within certain provinces in China. We will continue to assess the operational and financial impact for the remainder of the year. See “Item 1A. Risk Factors - Epidemics, such as the 2020 coronavirus outbreak, or natural disasters, terrorists attacks or acts of war...”.

Recent political and social developments in Hong Kong are also adversely affecting our Hong Kong operations. Hong Kong has historically served as a key location for meetings and events for our members, but these developments recently led us to curtail the number and scope of such meetings and events. These recent developments in Hong Kong, along with our currently effective suspension of member activities in China, are negatively impacting our business.

To date, the recently enacted tariffs and the trade disputes between the United States and China have not materially impacted our business, although they may have negatively impacted the value of the Chinese yuan, which has in turn negatively affected our Hong Kong revenues because the prices at which our Chinese members can purchase our products have effectively increased. In the event the trade disputes between the United States and China continue or intensify, our business could be negatively impacted in the future. For more information, see “Item 1A. Risk Factors - Recently enacted tariffs, other potential changes to tariff and import/export regulations, and ongoing trade disputes between the United States and other jurisdictions, particularly China...”.

Our Hong Kong net sales (substantially all of which were derived from products shipped to members residing in China) for 2019 were substantially lower than 2018, and it’s likely that we will experience continued lower net sales for the foreseeable future. The substantial decline in net sales during 2019 resulted in a net loss for the year, as well as negative cash flows and a decreasing cash balance. We anticipate that our financial performance will be adversely impacted for the foreseeable future.

Income Statement Presentation

We mainly derive revenue from sales of products. Substantially all of our product sales are to independent members at published wholesale prices. Product sales are recognized when the products are shipped and title passes to independent members, which generally is upon our delivery to the carrier that completes delivery to the members. We estimate and accrue a reserve for product returns based on our return policies and historical experience. We bill members for shipping charges and recognize the freight revenue in net sales. We have elected to account for shipping and handling activities performed after title has passed to members as a fulfillment cost, and accrue for the costs of shipping and handling if revenue is recognized before the contractually obligated shipping and handling activities occurs. Event and training revenue is deferred and recognized as the event or training occurs.

Cost of sales consists primarily of products purchased from third-party manufacturers, freight cost for transporting products to our foreign subsidiaries and shipping products to members, import duties, packing materials, product royalties, costs of promotional materials sold to our members at or near cost, and provisions for slow moving or obsolete inventories. Cost of sales also includes purchasing costs, receiving costs, inspection costs and warehousing costs.

Member commissions are our most significant expense and are classified as an operating expense. Under our compensation plan, members are paid weekly commissions by our subsidiary in which they are enrolled, generally in their home country currency, for product purchases by their down-line member network across all geographic markets. Our China subsidiary maintains an e-commerce retail platform and does not pay commissions, although our Chinese members may participate in our compensation plan through our other subsidiaries. This “seamless” compensation plan enables a member located in one country to enroll other members located in other countries where we are authorized to conduct our business. Currently, there are basically two ways in which our members can earn income:

- through commissions paid on the accumulated bonus volume from product purchases made by their down-line members and customers; and
- through retail profits on sales of products purchased by members at wholesale prices and resold at retail prices (for purchasers in some of our smaller markets and purchasers from our China subsidiary, sales are for personal consumption only and income may not be earned through retail profits).

Each of our products is designated a specified number of bonus volume points. Commissions are based on total personal and group bonus volume points per weekly sales period. Bonus volume points are essentially a percentage of a product’s wholesale price. As the member’s business expands from successfully enrolling other members who in turn expand their own businesses by selling product to other members, the member receives higher commissions from purchases made by an expanding down-line network. In some of our markets, to be eligible to receive commissions, a member may be required to make nominal monthly or other periodic purchases of our products. Certain of our subsidiaries do not require these nominal purchases for a member to be eligible to receive commissions. In determining commissions, the number of levels of down-line members included within the member’s commissionable group increases as the number of memberships directly below the member increases.

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Under our current compensation plan, certain of our commission payouts may be limited to a hard cap dollar amount per week or a specific percentage of total product sales. In some markets, commissions may be further limited. In some markets, we also pay certain bonuses on purchases by up to three generations of personally sponsored members, as well as bonuses on commissions earned by up to seven generations of personally sponsored members. Members can also earn additional income, trips and other prizes in specific time-limited promotions and contests we hold from time to time. Member commissions are dependent on the sales mix and, for both fiscal 2019 and 2018 represented 46% of net sales. Occasionally, we make modifications and enhancements to our compensation plan to help motivate members, which can have an impact on member commissions. We may also enter into performance-based agreements for business or market development, which can result in additional compensation to specific members.

Selling, general and administrative expenses consist of administrative compensation and benefits, travel, credit card fees and assessments, professional fees, certain occupancy costs, and other corporate administrative expenses (including stock-based compensation). In addition, this category includes selling, marketing, and promotion expenses (including the costs of member training events and conventions that are designed to increase both product awareness and member recruitment). Because our various member conventions are not always held at the same time each year, interim period comparisons will be impacted accordingly.

The functional currency of our international subsidiaries is generally their local currency. Local currency assets and liabilities are translated at the rates of exchange on the balance sheet date, and local currency revenues and expenses are translated at average rates of exchange during the period. Equity accounts are translated at historical rates. The resulting translation adjustments are recorded directly into accumulated other comprehensive loss.

Sales by our foreign subsidiaries are generally transacted in the respective local currencies and are translated into U.S. dollars using average rates of exchange for each monthly accounting period to which they relate. Most of our product purchases from third-party manufacturers are transacted in U.S. dollars. Consequently, our sales and net earnings are affected by changes in currency exchange rates, with sales and earnings generally increasing with a weakening U.S. dollar and decreasing with a strengthening U.S. dollar.

Results of Operations

The following table sets forth our operating results as a percentage of net sales for the periods indicated:

	Year Ended December 31,	
	2019	2018
Net sales	100.0 %	100.0%
Cost of sales	25.9	20.5
Gross profit	74.1	79.5
Operating expenses:		
Commissions expense	45.8	45.6
Selling, general and administrative expenses	35.1	16.3
Goodwill impairment	2.3	—
Total operating expenses	83.2	61.9
Income (loss) from operations	(9.1)	17.6
Other income, net	1.8	0.4
Income (loss) before income taxes	(7.3)	18.0
Income tax provision	—	1.8
Net income (loss)	(7.3)%	16.2%

Net Sales

The following table sets forth revenue by market for the periods indicated (in thousands):

	Year Ended December 31,			
	2019		2018	
Americas ¹	\$ 5,431	7.0%	\$ 6,982	3.6%
Hong Kong ²	62,724	80.8	169,452	88.3
China	2,941	3.8	7,744	4.0
Taiwan	3,126	4.0	3,964	2.1
South Korea	368	0.5	493	0.3
Japan	180	0.2	204	0.1
Singapore	72	0.1	169	0.1
Malaysia	220	0.3	390	0.2
Russia and Kazakhstan	980	1.2	868	0.4
Europe	1,370	1.8	1,644	0.9
India	202	0.3	—	—
Total	\$ 77,614	100.0%	\$ 191,910	100.0%

¹ *United States, Canada, Mexico and Peru.*

² *Substantially all of our Hong Kong revenues are derived from the sale of products that are delivered to members in China. See "Item 1A. Risk Factors".*

Net sales were \$77.6 million for the year ended December 31, 2019 compared with \$191.9 million a year ago, a decrease of \$114.3 million, or 60%. Hong Kong net sales, substantially all of which were derived from the sale of products shipped to members residing in China, decreased \$106.7 million, or 63%, over the prior year. Our net sales decrease primarily resulted from the continuing impact of China's 100-day campaign and the related look-back review described elsewhere in this report, including our voluntary decision in January 2019 to temporarily suspend our member activities, such as product roadshows, product trainings and larger company-sponsored events in China. While the 100-day period technically expired in mid-April 2019, our suspension of member activities remains in effect and we are not aware of any information indicating that the campaign or related look-back review has formally concluded. The operating environment for our business in China remains restrictive and adversely impacted our performance throughout 2019. We believe that our 2019 net sales were also adversely affected by recent political and social developments in Hong Kong, which led us to curtail the number and scope of meetings and other events for our members in Hong Kong, thus impairing an important part of our product marketing and distribution efforts.

Outside of our Hong Kong business, net sales decreased \$7.6 million, or 34%, compared with the prior year, driven largely by a 62% decrease in our China e-commerce business, which was also indirectly impacted by the 100-day campaign and our temporary suspension of activities.

As of December 31, 2019, deferred revenue was \$4.5 million, which primarily consisted of \$2.4 million in unshipped product orders and \$2.0 million pertaining to auto ship advances.

Gross Profit

Gross profit was 74.1% of net sales for the year ended December 31, 2019 compared with 79.5% of net sales for the year ended December 31, 2018. The gross profit margin percentage decrease was primarily attributable to higher logistics costs and product promotions.

Commissions

Commissions were 45.8% of net sales for the year ended December 31, 2019 compared with 45.6% of net sales for the year ended December 31, 2018.

Selling, General and Administrative Expenses

Selling, general and administrative expenses were \$27.2 million for the year ended December 31, 2019 compared with \$31.3 million for the year ended December 31, 2018. Selling, general and administrative expenses decreased by \$4.1 million, or 13%, mainly due to decreases in employee-related expenses and credit card fees as compared to the year ended December 31, 2018, partially offset by an increase in professional fees.

Goodwill Impairment

An impairment charge of \$1.8 million was recognized for the year ended December 31, 2019 due to the early adoption of Accounting Standards Update 2017-04, *Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment*. Such impairment pertained to goodwill that arose from a merger transaction with MarketVision Communication Corp. in March 2004.

Income Taxes

An income tax provision of \$14,000 was recognized for the year ended December 31, 2019 compared with \$3.5 million for the year ended December 31, 2018. The decrease is due primarily to the decrease in worldwide pre-tax book income and the resulting impact of the Global Intangible Low-Taxed Income ("GILTI") provision as a result of the enactment of the U.S. Tax Cuts and Jobs Act (the "Tax Act") in 2017. The GILTI provision subjects U.S. taxpayers owning at least 10% of a foreign controlled corporation to current taxation on the earnings and profits of the foreign corporation. We do not have a tax provision for GILTI for the year ended December 31, 2019 due to losses in foreign jurisdictions.

Liquidity and Capital Resources

At December 31, 2019, our cash and cash equivalents totaled \$96.0 million. Total cash and cash equivalents decreased by \$36.6 million at December 31, 2019, as compared to December 31, 2018, primarily due to the net loss incurred, the payment of prior year accrued commissions, stock repurchases and dividends paid during the year. We consider all highly liquid investments with original maturities of three months or less, when purchased, to be cash equivalents. As of December 31, 2019, we had \$82.3 million in available-for-sale investments classified as cash equivalents. In addition, cash and cash equivalents included \$9.1 million held in banks located in China subject to foreign currency controls.

At December 31, 2019, the ratio of current assets to current liabilities was 4.12 to 1.00 and we had \$82.1 million of working capital. Working capital as of December 31, 2019 decreased \$25.0 million compared to our working capital as of December 31, 2018, due primarily to the decrease in cash and cash equivalents as stated above, as well as the \$1.7 million of operating lease liabilities recognized on the balance sheet at December 31, 2019 due to the adoption of a new lease accounting standard effective January 1, 2019.

Cash used in operations during 2019 was \$18.6 million compared to \$29.7 million cash provided by operations during 2018. The decrease in operating cash flows resulted primarily from the net loss incurred and the decrease in accrued commissions and other liability balances.

Cash flows used in investing activities totaled \$189,000 and \$214,000 during 2019 and 2018, respectively.

Cash flows used in financing activities during 2019 totaled \$17.5 million, of which we used \$10.1 million to repurchase shares of our common stock. On January 12, 2016, the Board of Directors authorized an increase to the Company's stock repurchase program first approved on July 28, 2015 from \$15.0 million to \$70.0 million. Repurchases are expected to be executed to the extent that the Company's earnings and cash-on-hand allow, and are made in accordance with all applicable securities laws and regulations, including Rule 10b-18 of the Exchange Act. For all or a portion of the authorized repurchase amount, the Company may enter into one or more plans that are compliant with Rule 10b5-1 of the Exchange Act that are designed to facilitate these purchases. The stock repurchase program does not require the Company to acquire a specific number of shares, and may be suspended from time to time or discontinued.

On May 16, 2019, the Company's Board of Directors authorized the Company to proceed with the purchase of up to \$8.0 million in shares of common stock under the foregoing stock repurchase program. In connection therewith, the Company was advised that George K. Broady, a director of the Company and beneficial owner of more than 5% of its outstanding shares of common stock, would participate in the stock repurchase program through The George K. Broady 2012 Irrevocable Trust (the "Broady Trust") on a basis roughly proportional to his family's ownership interest. During May 2019, the Company authorized its broker to proceed with the purchase of shares of the Company's common stock in the open market. The stock repurchases, which included both open market purchases and the purchase of shares from the Broady Trust, resulted in the Company purchasing a total of 612,729 shares of its common stock for an aggregate purchase price of \$6.7 million, plus transaction costs. On August 6, 2019, the Company's Board of Directors authorized the Company to proceed with further purchases under the foregoing stock repurchase program. During August and September 2019, the Company purchased a total of 383,127 shares of common stock in the open market for an aggregate purchase price of \$2.9 million, plus transaction costs. During December 2019, the Company purchased a total of 97,785 shares of common stock for an aggregate purchase price of \$552,000, plus transaction costs. As of December 31, 2019, \$21.9 million of the \$70.0 million stock repurchase program approved on July 28, 2015 and increased on January 12, 2016 remained available for future purchases, inclusive of related estimated income tax.

Cash flows used in financing activities during 2019 also included the following dividend payments (in thousands, except per share amounts):

Declaration Date	Per Share	Amount	Record Date	Payment Date
October 29, 2019 (special)	\$ 0.40	\$ 4,608	November 19, 2019	November 29, 2019
January 27, 2019 (special)	0.08	912	March 5, 2019	March 15, 2019
January 27, 2019	0.16	1,824	March 5, 2019	March 15, 2019
	<u>\$ 0.64</u>	<u>\$ 7,344</u>		

Subsequent to December 31, 2019, on February 10, 2020, the Board of Directors declared a quarterly cash dividend of \$0.20 on each share of common stock outstanding. The dividend was paid on March 6, 2020 to stockholders of record on February 25, 2020. During 2020 and 2021, we expect to pay a quarterly cash dividend of \$0.20 on each share of common stock outstanding. However, any future cash dividends will be at the sole discretion of the Board of Directors, and will depend on our results of operations, financial condition, capital requirements and other factors considered relevant by the Board of Directors.

Cash flows used in financing activities during 2018 consisted solely of dividend payments totaling \$31.5 million.

On August 9, 2019 our Compensation Committee amended the 2014 Long-Term Incentive Plan (the "LTI Plan") to provide that all then unpaid cash benefits earned by currently employed participants under the LTI Plan with respect to performance periods that concluded on or prior to December 31, 2018 shall be paid in the form of an award of shares of restricted stock under the Company's 2016 Equity Incentive Plan. Accordingly, on August 9, 2019, we awarded 1,117,485 shares of restricted common stock to certain of our employees (subject to quarterly vesting for the three-year period following the date of award) in lieu of aggregate unpaid cash benefits of \$7.9 million earned under the LTI Plan for performance periods ending on or prior to December 31, 2018. As such, there were no unpaid installments for long-term incentive compensation as of December 31, 2019.

We believe that our existing internal liquidity, supported by cash on hand and cash flows from operations should be adequate to fund normal business operations and address our financial commitments for the foreseeable future.

We do not have any significant unused sources of liquid assets. If necessary, we may attempt to generate more funding from the capital markets, but currently do not believe that will be necessary.

Our priority is to focus our resources on investing in our most important markets, which we consider to be Greater China and countries where our existing members may have the connections to recruit prospects and sell our products, such as Southeast Asia, India, South America and Europe. We will continue to invest in our Mainland China entity for such purposes as establishing China-based manufacturing capabilities, increasing public awareness of our brand and our products, sourcing more Chinese-made products, building a chain of service stations, opening additional Healthy Lifestyle Centers or branch offices, adding local staffing and other requirements for a China direct selling license application.

Quarterly Results of Operations (Unaudited)

The following table sets forth unaudited quarterly operating results for each of the last eight fiscal quarters. The information for each of these quarters has been prepared on the same basis as the audited annual financial statements included elsewhere in this annual report and, in the opinion of management, includes all adjustments, which includes only normal recurring adjustments, necessary for the fair statement of the results of operations for these periods. This data should be read in conjunction with our audited consolidated financial statements and related notes included in “Item 8. Financial Statements and Supplementary Data” of this annual report. These quarterly operating results are not necessarily indicative of our operating results for any future period.

	2019				2018			
	4th Quarter	3rd Quarter	2nd Quarter	1st Quarter	4th Quarter	3rd Quarter	2nd Quarter	1st Quarter
(In Thousands, Except Per Share Data)								
Net sales	\$ 17,835	\$ 17,023	\$ 23,428	\$ 19,328	\$ 41,590	\$ 47,043	\$ 50,910	\$ 52,367
Gross profit	12,733	12,652	18,021	14,104	32,769	37,117	40,511	42,146
Income (loss) from operations	(3,246)	(1,064)	(4)	(2,709)	5,733	7,847	10,108	10,044
Net income (loss)	(2,842)	(1,243)	397	(1,923)	5,559	7,629	9,023	8,824
Net income (loss) per common share:								
Basic	(0.27)	(0.12)	0.04	(0.17)	0.49	0.67	0.80	0.78
Diluted	(0.27)	(0.12)	0.04	(0.17)	0.49	0.67	0.80	0.78

Critical Accounting Policies and Estimates

A summary of our significant accounting policies is provided in Note 1 of the Notes to Consolidated Financial Statements in “Item 8. Financial Statements and Supplementary Data” of this report. The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reported period. The process of determining significant estimates is fact specific and takes into account historical experience and current and expected economic conditions. To the extent that there are material differences between the estimates and actual results, future results of operations will be affected.

Critical accounting policies and estimates are defined as both those that are material to the portrayal of our financial condition and results of operations and as those that require management’s most subjective judgments. Management believes our critical accounting policies and estimates are those related to revenue recognition, as well as those used in the determination of liabilities related to member commissions and income taxes.

Revenue Recognition. All revenue is recognized when the performance obligations under a contract are satisfied. Product sales are recorded when the products are shipped and title passes to independent members. Product sales to members are made pursuant to a member agreement that provides for transfer of both title and risk of loss upon our delivery to the carrier that completes delivery to the members, which is commonly referred to as “F.O.B. Shipping Point.” We primarily receive payment by credit card at the time members place orders. Our sales arrangements do not contain right of inspection or customer acceptance provisions other than general rights of return. Amounts received for unshipped product are recorded as deferred revenue. Such amounts totaled \$2.4 million and \$4.6 million at December 31, 2019 and 2018, respectively. Shipping charges billed to members are included in net sales. Costs associated with shipments are included in cost of sales. Event and training revenue is deferred and recognized as the event or training occurs.

Additionally, deferred revenue includes advances for auto ship orders. In certain markets, when a member's cumulative commission income reaches a certain threshold, a percentage of the member's weekly commission is held back as an advance and applied to an auto ship order once the accumulated amount of the advances is sufficient to pay for the pre-selected auto ship package of the member. Such advances were \$2.0 million and \$1.9 million at December 31, 2019 and 2018, respectively.

Commissions. Independent members earn commissions based on total personal and group bonus volume points per weekly sales period. Each of our products are designated a specified number of bonus volume points, which is essentially a percentage of the product's wholesale price. We accrue commissions when earned and as the related revenue is recognized and pay commissions on product sales generally two weeks following the end of the weekly sales period.

Independent members may also earn incentives based on meeting certain qualifications during a designated incentive period, which may range from several weeks to up to a year. For each individual incentive, we estimate the total number of qualifiers as well as the expected per qualifier cost and accrue all costs associated with incentives throughout the qualification period. We regularly review and update, if necessary, the estimates of both qualifiers and cost as more information is obtained during the qualification period. Any resulting change in total cost is recognized over the remaining qualification period. Long-term promotions and incentives (lasting up to one year) can, in particular, result in uncertain ultimate cost. Accrued commissions, including the estimated cost of our international recognition incentive program and other supplemental programs, totaled \$2.9 million and \$12.5 million at December 31, 2019 and 2018, respectively.

Income Taxes. Deferred income taxes are recognized for differences between the financial reporting and tax bases of assets and liabilities at enacted statutory rates for the years in which the temporary differences are expected to be recovered or settled. We evaluate the probability of realizing the future benefits of any of our deferred tax assets and record a valuation allowance when we believe a portion or all of our deferred tax assets may not be realized. Deferred tax expense or benefit is a result of changes in deferred tax assets and liabilities. Based on the technical merits of our tax position, tax benefits may be recognized if we determine it is more likely than not that our position will be sustained on examination by tax authorities. The complex nature of these estimates requires us to anticipate the likely application of tax law and make judgments on the largest benefit that has a greater than fifty percent likelihood of being realized prior to the completion and filing of tax returns for such periods. As of December 31, 2019, we do not have a valuation allowance against our U.S. deferred tax assets. We maintain a valuation allowance in certain foreign jurisdictions with an overall tax loss. The valuation allowance will be reduced at such time as management believes it is more likely than not that the deferred tax assets will be realized. Any reductions in the valuation allowance will reduce future income tax provision.

Provision for income taxes depends on the statutory tax rates in each of the jurisdictions in which we operate. As a result of capital return activities, we determined that a portion of our current undistributed foreign earnings are no longer deemed reinvested indefinitely by our non-U.S. subsidiaries. The Tax Act, enacted on December 22, 2017 by the U.S. government, required a one-time repatriation tax on certain un-repatriated earnings of foreign subsidiaries at a rate of 15.5% tax on post-1986 foreign earnings held in cash and an 8% rate on all other post-1986 earnings. Due to the adoption of a territorial tax regime, any foreign source portion of a qualified dividend received by a 10% U.S. corporate shareholder is exempt from U.S. federal tax, therefore resulting in any future repatriation having a minimal effect on our effective tax rate. For state income tax purposes, we will continue to periodically reassess the needs of our foreign subsidiaries and update our indefinite reinvestment assertion as necessary. To the extent that additional foreign earnings are not deemed permanently reinvested, we expect to recognize additional income tax provision at the applicable U.S. state corporate tax rate(s). As of December 31, 2019, we have not recorded a state deferred tax liability for earnings to be repatriated in the future. All undistributed earnings in excess of 50% of current earnings on an annual basis are intended to be reinvested indefinitely as of December 31, 2019.

We estimate what our effective tax rate will be for the full fiscal year at each interim reporting period and record a quarterly tax provision based on that estimated effective tax rate. Throughout the year that estimated rate may change based on variations in our business, changes in our corporate structure, changes in the geographic mix and amount of income, applicable tax laws and regulations, communications with tax authorities, as well as our estimated and actual level of annual pre-tax income. We adjust our income tax provision in the reporting period in which the change in our estimated rate occurs so that the year-to-date provision is consistent with the anticipated annual tax rate.

Item 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not applicable under smaller reporting company disclosure rules.

Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

NATURAL HEALTH TRENDS CORP.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and Board of Directors of
Natural Health Trends Corp.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Natural Health Trends Corp. (the "Company") as of December 31, 2019 and 2018, the related consolidated statements of operations, comprehensive income (loss), stockholders' equity and cash flows for each of the two years in the period ended December 31, 2019, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2019 and 2018, and the results of its operations and its cash flows for each of the two years in the period ended December 31, 2019, in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB"), the Company's internal control over financial reporting as of December 31, 2019, based on the criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in 2013 and our report dated March 9, 2020, expressed an unqualified opinion thereon on the effectiveness of the Company's internal control over financial reporting.

Explanatory Paragraph - Change in Accounting Principle

As discussed in Note 1 to the consolidated financial statements, the Company changed its method of accounting for leases in 2019 due to the adoption of ASU No. 2016-02, Leases (Topic 842), as amended, effective January 1, 2019, using the modified retrospective approach.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Marcum LLP
Marcum LLP

We have served as the Company's auditor since 2017.

Los Angeles, CA
March 9, 2020

NATURAL HEALTH TRENDS CORP.
CONSOLIDATED BALANCE SHEETS
(In Thousands, Except Share Data)

	December 31,	
	2019	2018
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 96,035	\$ 132,653
Inventories	6,404	12,165
Other current assets	5,936	5,369
Total current assets	108,375	150,187
Property and equipment, net	735	934
Operating lease right-of-use assets	3,135	—
Goodwill	—	1,764
Restricted cash	3,390	2,998
Deferred tax asset	2,039	1,207
Other assets	823	831
Total assets	\$ 118,497	\$ 157,921
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 680	\$ 1,631
Accrued commissions	2,931	12,502
Other accrued expenses	2,387	6,121
Deferred revenue	4,506	6,795
Amounts held in eWallets	12,938	14,611
Operating lease liabilities	1,655	—
Other current liabilities	1,205	1,424
Total current liabilities	26,302	43,084
Income taxes payable	15,365	16,982
Deferred tax liability	202	186
Long-term incentive	—	7,808
Operating lease liabilities	1,564	—
Total liabilities	43,433	68,060
Commitments and contingencies (Note 8)		
Stockholders' equity:		
Preferred stock, \$0.001 par value; 5,000,000 shares authorized; no shares issued and outstanding	—	—
Common stock, \$0.001 par value; 50,000,000 shares authorized; 12,979,414 shares issued at December 31, 2019 and 2018	13	13
Additional paid-in capital	86,102	86,415
Retained earnings	16,117	44,431
Accumulated other comprehensive loss	(1,264)	(1,250)
Treasury stock, at cost; 1,556,875 and 1,603,322 shares at December 31, 2019 and 2018, respectively	(25,904)	(39,748)
Total stockholders' equity	75,064	89,861
Total liabilities and stockholders' equity	\$ 118,497	\$ 157,921

See accompanying notes to consolidated financial statements.

NATURAL HEALTH TRENDS CORP.
CONSOLIDATED STATEMENTS OF OPERATIONS
(In Thousands, Except Per Share Data)

	Year Ended December 31,	
	2019	2018
Net sales	\$ 77,614	\$ 191,910
Cost of sales	20,104	39,367
Gross profit	57,510	152,543
Operating expenses:		
Commissions expense	35,549	87,502
Selling, general and administrative expenses	27,220	31,309
Goodwill impairment	1,764	—
Total operating expenses	64,533	118,811
Income (loss) from operations	(7,023)	33,732
Other income, net	1,426	789
Income (loss) before income taxes	(5,597)	34,521
Income tax provision	14	3,486
Net income (loss)	\$ (5,611)	\$ 31,035
Net income (loss) per common share:		
Basic	\$ (0.52)	\$ 2.75
Diluted	\$ (0.52)	\$ 2.74
Weighted-average number of common shares outstanding:		
Basic	10,871	11,304
Diluted	10,871	11,318

See accompanying notes to consolidated financial statements.

NATURAL HEALTH TRENDS CORP.**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)**
(In Thousands)

	Year Ended December 31,	
	2019	2018
Net income (loss)	\$ (5,611)	\$ 31,035
Other comprehensive income (loss), net of tax:		
Foreign currency translation adjustments	(28)	(831)
Unrealized gains (losses) on available-for-sale securities	14	(6)
Comprehensive income (loss)	<u>\$ (5,625)</u>	<u>\$ 30,198</u>

See accompanying notes to consolidated financial statements.

NATURAL HEALTH TRENDS CORP.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(In Thousands, Except Share Data)

	Preferred Stock		Common Stock		Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock		Total
	Shares	Amount	Shares	Amount				Shares	Amount	
BALANCE, December 31, 2017	—	\$ —	12,979,414	\$ 13	\$ 86,683	\$ 44,908	\$ (413)	(1,637,524)	\$ (40,570)	\$ 90,621
Net income	—	—	—	—	—	31,035	—	—	—	31,035
Common stock issued	—	—	—	—	(268)	—	—	34,202	822	554
Dividends declared, \$2.77/share	—	—	—	—	—	(31,512)	—	—	—	(31,512)
Foreign currency translation adjustments	—	—	—	—	—	—	(831)	—	—	(831)
Unrealized losses on available-for-sale securities	—	—	—	—	—	—	(6)	—	—	(6)
BALANCE, December 31, 2018	—	—	12,979,414	13	86,415	44,431	(1,250)	(1,603,322)	(39,748)	89,861
Net loss	—	—	—	—	—	(5,611)	—	—	—	(5,611)
Repurchase of common stock	—	—	—	—	—	—	—	(1,093,641)	(10,117)	(10,117)
Common stock issued	—	—	—	—	(313)	(15,359)	—	1,140,088	23,961	8,289
Dividends declared, \$0.64/share	—	—	—	—	—	(7,344)	—	—	—	(7,344)
Foreign currency translation adjustments	—	—	—	—	—	—	(28)	—	—	(28)
Unrealized gains on available-for-sale securities	—	—	—	—	—	—	14	—	—	14
BALANCE, December 31, 2019	—	\$ —	12,979,414	\$ 13	\$ 86,102	\$ 16,117	\$ (1,264)	(1,556,875)	\$ (25,904)	\$ 75,064

See accompanying notes to consolidated financial statements.

NATURAL HEALTH TRENDS CORP.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In Thousands)

	Year Ended December 31,	
	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	\$ (5,611)	\$ 31,035
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	387	424
Noncash lease expense	1,760	—
Deferred income taxes	(820)	358
Goodwill impairment	1,764	—
Changes in assets and liabilities:		
Inventories	5,820	(3,879)
Other current assets	(554)	2,065
Other assets	—	(55)
Accounts payable	(953)	(116)
Accrued commissions	(9,598)	1,410
Other accrued expenses	(2,797)	(883)
Deferred revenue	(2,315)	2,359
Amounts held in eWallets	(1,742)	(509)
Operating lease liabilities	(1,807)	—
Income taxes payable	(1,617)	(2,077)
Other current liabilities	(222)	(326)
Long-term incentive	(333)	(96)
Net cash provided by (used in) operating activities	(18,638)	29,710
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(189)	(214)
Net cash used in investing activities	(189)	(214)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repurchase of common stock	(10,117)	—
Dividends paid	(7,344)	(31,512)
Net cash used in financing activities	(17,461)	(31,512)
Effect of exchange rates on cash, cash equivalents and restricted cash	62	(811)
Net decrease in cash, cash equivalents and restricted cash	(36,226)	(2,827)
CASH, CASH EQUIVALENTS AND RESTRICTED CASH, beginning of period	135,651	138,478
CASH, CASH EQUIVALENTS AND RESTRICTED CASH, end of period	\$ 99,425	\$ 135,651
SUPPLEMENTAL DISCLOSURES OF OTHER CASH FLOW INFORMATION:		
Cash paid for income taxes, net	\$ 1,985	\$ 3,130
Issuance of treasury stock for employee awards, net	\$ 8,289	\$ 554
Right-of-use assets obtained in exchange for operating lease liabilities	\$ 5,082	\$ —

See accompanying notes to consolidated financial statements.

NATURAL HEALTH TRENDS CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

Natural Health Trends Corp., a Delaware corporation (whether or not including its subsidiaries, the “Company”), is an international direct-selling and e-commerce company. Subsidiaries controlled by the Company sell personal care, wellness, and “quality of life” products under the “NHT Global” brand.

The Company’s wholly-owned subsidiaries have an active physical presence in the following markets: the Americas, which consists of the United States, Canada, Cayman Islands, Mexico and Peru; Greater China, which consists of Hong Kong, Taiwan and China; Southeast Asia, which consists of Singapore, Malaysia, Thailand and Vietnam; South Korea; Japan; India; and Europe. The Company also operates in Russia and Kazakhstan through an engagement with a local service provider.

In January 2019, the Company relocated its corporate headquarters from Rolling Hills Estates, California to Hong Kong.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and all of its wholly-owned subsidiaries. All significant inter-company balances and transactions have been eliminated in consolidation.

Reclassification

Certain prior year amounts in the balance sheet have been reclassified to conform to current year presentation.

Use of Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reported period.

The most significant accounting estimates inherent in the preparation of the Company’s financial statements include estimates associated with revenue recognition, as well as those used in the determination of liabilities related to sales returns, commissions and income taxes. Various assumptions and other factors prompt the determination of these significant estimates. The process of determining significant estimates is fact specific and takes into account historical experience and current and expected economic conditions. The actual results may differ materially and adversely from the Company’s estimates. To the extent that there are material differences between the estimates and actual results, future results of operations will be affected.

Cash and Cash Equivalents

Cash and cash equivalents include the Company’s investments in municipal and corporate debt securities, money market funds, and time deposits. The Company considers all highly liquid investments with original maturities of three months or less when purchased to be cash equivalents. Debt securities classified as cash equivalents are required to be accounted for in accordance with the Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) 320, *Investments - Debt and Equity Securities*. As such, the Company determined its investments in debt securities held at December 31, 2019 should be classified as available-for-sale and are carried at fair value with unrealized gains and losses reported in accumulated other comprehensive loss in stockholders’ equity. The cost of debt securities is adjusted for amortization of premiums and discounts to maturity. This amortization is included in other income. Realized gains and losses, as well as interest income, are also included in other income. The fair values of securities are based on quoted market prices to the extent available or alternative pricing sources and models utilizing market observable inputs.

The Company includes credit card receivables due from certain of its credit card processors in its cash and cash equivalents as the cash proceeds are received within two to five days.

The Company maintains certain cash balances at several institutions located in the United States, Hong Kong and elsewhere which at times may exceed insured limits. The Company has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk.

Restricted Cash

In June 2015, the Company funded a bank deposit account in the amount of CNY20 million (\$2.9 million at December 31, 2019 and 2018) in anticipation of submitting a direct selling license application in China. Such deposit is required by Chinese laws to establish a consumer protection fund. In November 2019, the Company funded a similar bank deposit account in the amount of VND 10 million (\$432,000 at December 31, 2019) for purposes of submitting a direct selling license application in Vietnam.

The Company periodically maintains a cash reserve with certain credit card processing companies to provide for potential uncollectible amounts and chargebacks. Those cash reserves held by credit card processing companies located in South Korea are reflected in noncurrent assets since they require the Company to provide 100% collateral before processing transactions, which must be maintained indefinitely.

Inventories

Inventories are stated at the lower of cost or net realizable value, using the first-in, first-out method. The Company reviews its inventory for obsolescence and any inventory identified as obsolete is reserved or written off. The Company's determination of obsolescence is based on assumptions about the demand for its products, product expiration dates, estimated future sales, and management's future plans.

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation and amortization. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally three to five years for office equipment, office software and capitalized internal-use software development costs and five to seven years for furniture and fixtures. Leasehold improvements are amortized over the shorter of the lease term or the estimated useful life of the assets. Expenditures for maintenance and repairs are charged to expense as incurred. Depreciation and amortization expenses are included in the statement of operations as selling, general and administrative expenses. Such expense totaled \$387,000 and \$424,000 during 2019 and 2018, respectively.

The Company reviews property and equipment for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. Recoverability of these assets is measured by comparison of its carrying amounts to future undiscounted cash flows the assets are expected to generate. If property and equipment are considered to be impaired, the impairment to be recognized equals the amount by which the carrying value of the asset exceeds its fair value.

Income Taxes

The Company recognizes income taxes under the liability method of accounting for income taxes. Deferred income taxes are recognized for differences between the financial reporting and tax bases of assets and liabilities at enacted statutory tax rates in effect for the years in which the temporary differences are expected to be recovered or settled. Deferred tax expense or benefit is a result of changes in deferred tax assets and liabilities. Valuation allowances are established when necessary to reduce deferred tax assets to the amounts expected to be ultimately realized based on the more likely than not recognition criteria. The Company recognizes tax benefits from uncertain tax positions only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The Company has evaluated its tax positions and determined that there are no significant uncertain tax positions for the current year or years prior. The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than fifty percent likelihood of being realized upon ultimate resolution. The Company recognizes interest and penalties related to unrecognized tax benefits as a component of income tax expense. Deferred taxes are not provided for state income tax purposes on the portion of undistributed earnings of subsidiaries outside of the United States when these earnings are considered permanently reinvested.

Amounts Held in eWallets

The Company requires commission payments of certain members in Hong Kong to be first recorded into an electronic wallet (eWallet) account in lieu of being paid out directly to members. The eWallet functionality allows members to place new product orders utilizing eWallet available balance and/or request commission payout via multiple payment methods. Amounts held in eWallets are reflected on the balance sheet as a current liability.

Long-Term Incentive

Financial rewards earned under the 2014 Long-Term Incentive Plan (the "LTI Plan") are recognized over the performance period as specified performance or other goals are achieved or exceeded. At the sole discretion of the Compensation Committee of the Company's Board of Directors, distributions under the LTI Plan are made in cash, or alternatively awarded in the form of common stock or other common stock rights having an equivalent cash value under the terms of the 2016 Equity Incentive Plan. A determination of the form of distribution is made by the Compensation Committee subsequent to the end of each calendar year. As such, amounts earned are considered non-equity awards. In accordance with the LTI Plan, fifty percent of any cash payment earned is payable in thirty-five equal consecutive monthly installments commencing in February of the calendar year immediately following the conclusion of the performance period and the remaining fifty percent of the payment earned is payable in thirty-five equal consecutive monthly installments commencing in February 2021 and ending in December 2023. Under the LTI Plan, distributions that are made in the form of common stock or other common stock rights are payable in a single distribution in February of the calendar year immediately following the conclusion of the performance period, or as soon thereafter as is administratively practical.

While it did not change the foregoing features of the LTI Plan going forward, on August 9, 2019 the Compensation Committee amended the LTI Plan to provide that all then unpaid cash benefits earned by currently employed participants under the LTI Plan with respect to performance periods that concluded on or prior to December 31, 2018 shall be paid in the form of an award of shares of restricted stock under the Company's 2016 Equity Incentive Plan. Accordingly, on August 9, 2019, the Company awarded 1,117,485 shares of restricted common stock to certain of its employees (subject to quarterly vesting for the three-year period following the date of award) in lieu of aggregate unpaid cash benefits of \$7.9 million earned under the LTI Plan for performance periods ending on or prior to December 31, 2018. As such, there were no unpaid installments for long-term incentive compensation as of December 31, 2019. See Note 9.

Foreign Currency

The functional currency of the Company's international subsidiaries is generally their local currency. Local currency assets and liabilities are translated at the rates of exchange on the balance sheet date, and local currency revenues and expenses are translated at average rates of exchange during the period. Equity accounts are translated at historical rates. The resulting translation adjustments are recorded directly into accumulated other comprehensive loss.

Aggregate transaction gains or losses, including gains or losses related to foreign-denominated cash and cash equivalents and the re-measurement of certain inter-company balances, are included in the statement of operations as other income and expense. Loss on foreign exchange totaling \$355,000 and \$739,000 was recognized during 2019 and 2018, respectively.

Commissions

Independent members earn commissions based on total personal and group bonus volume points per weekly sales period. Each of the Company's products are designated a specified number of bonus volume points, which is essentially a percentage of the product's wholesale price. The Company accrues commissions when earned and as the related revenue is recognized and pays commissions on product sales generally two weeks following the end of the weekly sales period.

In some markets, the Company also pays certain bonuses on purchases by up to three generations of personally sponsored members, as well as bonuses on commissions earned by up to seven generations of personally sponsored members. Independent members may also earn incentives based on meeting certain qualifications during a designated incentive period, which may range from several weeks to up to a year. The Company estimates and accrues all costs associated with the incentives as the members meet the qualification requirements.

From time to time the Company makes modifications and enhancements to the Company's compensation plan to help motivate members, which can have an impact on member commissions. The Company also enters into performance-based agreements for business or market development, which may result in additional compensation to specific members.

Net Income (Loss) Per Common Share

Diluted net income per common share is determined using the weighted-average number of common shares outstanding during the period, adjusted for the dilutive effect of common stock equivalents. The dilutive effect of non-vested restricted stock is reflected by application of the treasury stock method. Under the treasury stock method, the amount of compensation cost for future service that the Company has not yet recognized, if any, is assumed to be used to repurchase shares.

Certain Risks and Concentrations

A substantial portion of the Company's sales are generated in Hong Kong (see Note 13). Substantially all of the Company's Hong Kong revenues are derived from the sale of products that are delivered to members in China. In contrast to the Company's operations in other parts of the world, the Company's China subsidiary has not implemented a direct sales model in China. The Chinese government permits direct selling only by organizations that have a license and has also adopted anti-pyramid selling and multilevel marketing legislation. The Company previously submitted a preliminary application for a direct selling license in China in August 2015, but in 2019 a Chinese governmental authority recommended that the Company withdraw its application. The Company understands that the governmental authorities recommended that other companies with pending direct selling license applications also withdraw their applications. The Company applied to withdraw its application in November 2019, and the governmental authorities approved the withdrawal of its application shortly thereafter. The Company operates an e-commerce direct selling model in Hong Kong and recognizes the revenue derived from sales to both Hong Kong and Chinese members as being generated in Hong Kong. Products purchased by members in China are delivered to third parties that act as the importers of record under agreements to pay applicable duties. In addition, through a Chinese entity, the Company sells products in China using an e-commerce retail model. The Chinese entity operates separately from the Hong Kong entity, and a Chinese member may elect to participate separately or in both.

The Company continually evaluates its operations in China and Hong Kong for compliance with applicable laws and regulations, including seeking the input of outside professionals and certain Chinese authorities. This process can and has resulted in the identification of certain matters of potential noncompliance. The Company works on a continuing basis to satisfactorily address such matters, however there can be no assurance that adequate steps are taken or that applicable laws and regulations are properly interpreted. Should the government authorities determine that the Company's activities violate applicable laws and regulations, including China's direct selling, pyramid selling or multilevel marketing laws and regulations, or should new laws or regulations be adopted, there could be a material adverse effect on the Company's business, financial condition and results of operations.

Although the Company attempts to work closely with both national and local Chinese governmental agencies in conducting its business, the Company's efforts to comply with national and local laws may be harmed by a rapidly evolving regulatory climate, concerns about activities resembling violations of direct selling, pyramid selling or multi-level marketing legislation, and subjective interpretations of laws and regulations. Any determination that the Company's operations or activities, or the activities of its individual members or employee sales representatives, or importers of record are not in compliance with applicable laws and regulations could result in the imposition of substantial fines, extended interruptions of business, restrictions on the Company's future ability to obtain business licenses or expand into new locations, changes to its business model, the termination of required licenses to conduct business, or other actions, any of which could materially harm the Company's business, financial condition and results of operations.

No single market other than Hong Kong had net sales greater than 10% of total sales. Sales are made to the Company's members and no single customer accounted for 10% or more of its net sales. However, the Company's business model can result in a concentration of sales to several different members and their network of members. Although no single member accounted for 10% or more of net sales, the loss of a key member or that member's network could have an adverse effect on the Company's net sales and financial results.

The Company's *Premium Noni Juice*, *Enhanced Essential Probiotics* and *Triotein*TM products each account for more than 10% of the Company's total revenue. The Company currently sources each such product from a single supplier. If demand decreases significantly, government regulation restricts their sale, the Company is unable to adequately source or deliver the products, or the Company ceases offering the products for any reason without suitable replacements, the Company's business, financial condition and results of operations could be materially and adversely affected.

Fair Value of Financial Instruments

The carrying amounts of the Company's financial instruments, including cash and accounts payable, approximate fair value because of their short maturities. The carrying amount of the noncurrent restricted cash approximates fair value since, absent the restrictions, the underlying assets would be included in cash and cash equivalents.

Accounting standards permit companies, at their option, to choose to measure many financial instruments and certain other items at fair value. The Company has elected to not fair value existing eligible items.

Recently Issued and Adopted Accounting Pronouncements

In February 2016, the FASB established Topic 842, *Leases*, by issuing Accounting Standards Update ("ASU") 2016-02, which requires lessees to recognize the rights and obligations created by leases on the balance sheet and disclose key information about leasing arrangements. Topic 842 was subsequently amended by ASU No. 2018-11, *Targeted Improvements*, ASU No. 2018-10, *Codification Improvements to Topic 842*, and ASU No. 2018-01, *Land Easement Practical Expedient for Transition to Topic 842*. The new standard establishes a right-of-use (ROU) model that requires a lessee to recognize a ROU asset and lease liability on the balance sheet for all leases with a term longer than 12 months. Leases are classified as finance or operating, with classification affecting the pattern and classification of expense recognition in the statement of operations. Effective January 1, 2019, the Company adopted the new standard using the effective date as its date of initial application. The new standard provided a number of optional practical expedients in transition. The Company elected the "package of practical expedients", which permits entities not to reassess under the new lease standard prior conclusions about lease identification, lease classification and initial direct costs. Upon adoption, the Company recognized operating lease liabilities on its balance sheet for \$4.5 million, with corresponding ROU assets of the same amount based on the present value of the remaining minimum rental payments under current leasing standards for existing operating leases. See Note 6 for additional information.

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, which introduced an expected credit loss model for the impairment of financial assets measured at amortized cost basis and added Topic 326 to the FASB ASC. In November 2019, the FASB issued ASU 2019-11, *Codification Improvements to Topic 326, Financial Instruments - Credit Losses*. The amendments to ASU 2019-11 clarify, correct and make improvements to Topic 326. ASU 2016-13 as well as the updates in ASU 2019-11 are effective for interim and annual periods beginning after December 15, 2022, and early adoption is permitted. The Company is currently evaluating the impact of this standard on its consolidated financial statements.

In January 2017, the FASB issued ASU 2017-04, *Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment*. This guidance simplifies the required test of goodwill for impairment by eliminating Step 2 from the goodwill impairment test. Instead, an entity should perform its annual, or interim, goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount and recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value. This ASU is effective for interim and annual impairment tests in fiscal years beginning after December 15, 2019, and early adoption is permitted. The Company elected to early adopt the new standard during the fourth quarter of 2019. See Note 7 for additional information.

In August 2018, the FASB issued ASU 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement*. This guidance modifies, removes, and adds certain disclosure requirements on fair value measurements. This ASU is effective for interim and annual periods beginning after December 15, 2019, and early adoption is permitted. The Company is currently evaluating the impact of this standard on its consolidated financial statements.

In December 2019, the FASB issued ASU 2019-12, *Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes*. This guidance removes certain exceptions for recognizing deferred taxes for investments, performing intraperiod allocation and calculating income taxes in interim periods. It also adds guidance to reduce complexity in certain areas, including recognizing deferred taxes for tax goodwill and allocating taxes to members of a consolidated group. This ASU is effective for interim and annual periods beginning after December 15, 2020, and early adoption is permitted. The Company is currently evaluating the impact of this standard on its consolidated financial statements.

Other recently issued accounting pronouncements did not or are not believed by management to have a material impact on the Company's present or future financial statements.

2. REVENUE

Revenue Recognition

All revenue is recognized when the performance obligations under a contract are satisfied. Product sales are recognized when the products are shipped and title passes to independent members. Product sales to members are made pursuant to a member agreement that provides for transfer of both title and risk of loss upon the Company's delivery to the carrier that completes delivery to the members, which is commonly referred to as "F.O.B. Shipping Point." The Company's sales arrangements do not contain right of inspection or customer acceptance provisions other than general rights of return. These contracts are generally short-term in nature.

Actual product returns are recorded as a reduction to net sales. The Company estimates and accrues a reserve for product returns based on its return policies and historical experience. The reserve is based upon the return policy of each country, which varies from 14 days to one year, and their historical return rates, which range from 1% to 5% of sales. Sales returns were 2% of sales for each of 2019 and 2018. No material changes in estimates have been recognized during the periods presented. See Note 4 for additional information.

The Company has elected to account for shipping and handling activities performed after title has passed to members as a fulfillment cost, and accrues for the costs of shipping and handling if revenue is recognized before the contractually obligated shipping and handling activities occurs. Shipping charges billed to members are included in net sales. Costs associated with shipments are included in cost of sales. Event and training revenue is deferred and recognized as the event or training occurs. Costs of events and member training are included within selling, general and administrative expenses.

Various taxes on the sale of products to members are collected by the Company as an agent and remitted to the respective taxing authority. These taxes are presented on a net basis and recorded as a liability until remitted to the respective taxing authority.

Deferred Revenue

The Company primarily receives payment by credit card at the time members place orders. Amounts received for unshipped product are considered a contract liability and are recorded as deferred revenue. The decrease in deferred revenue for the year ended December 31, 2019 is primarily due to \$4.9 million of revenue recognized during the year that was included in deferred revenue as of December 31, 2018 offset by \$2.7 million of cash payments received for unshipped product primarily towards the end of 2019. See Note 4 for additional information.

Disaggregation of Revenue

The Company sells products to a member network that operates in a seamless manner from market to market, except for the Chinese market where it sells to some consumers through an e-commerce retail platform and the Russia and Kazakhstan market where the Company operates through the engagement of a third-party service provider. See Note 13 for additional information.

Arrangements with Multiple Performance Obligations

The Company's contracts with customers may include multiple performance obligations. For such arrangements, the Company allocates revenues to each performance obligation based on its relative standalone selling price. The Company generally determines standalone selling prices based on the prices charged for individual products to similar customers.

Practical Expedients

The Company generally expenses sales commissions when incurred because the amortization period would be one year or less. These costs are recorded in commissions expense.

The Company does not provide certain disclosures about unsatisfied performance obligations for contracts with an original expected length of one year or less.

3. NET INCOME (LOSS) PER COMMON SHARE

The following table illustrates the computation of basic and diluted net income (loss) per common share for the periods indicated (in thousands, except per share data):

	Year Ended December 31,					
	2019			2018		
	Loss	Shares	Per Share	Income	Shares	Per Share
Basic net income (loss) per common share:						
Net income (loss) available to common stockholders	\$ (5,611)	10,871	<u>\$ (0.52)</u>	\$ 31,035	11,304	<u>\$ 2.75</u>
Effect of dilutive securities:						
Non-vested restricted stock	—	—	—	—	14	—
Diluted net income (loss) per common share:						
Net income (loss) available to common stockholders plus assumed conversions	<u>\$ (5,611)</u>	<u>10,871</u>	<u>\$ (0.52)</u>	<u>\$ 31,035</u>	<u>11,318</u>	<u>\$ 2.74</u>

In periods when losses are reported, the weighted-average number of common shares outstanding excludes common stock equivalents because their inclusion would be anti-dilutive. As such, non-vested restricted stock totaling 459,654 shares were not included for year ended December 31, 2019.

4. BALANCE SHEET COMPONENTS

The components of certain balance sheet amounts are as follows (in thousands):

	December 31,	
	2019	2018
Cash and cash equivalents:		
Cash	\$ 13,720	\$ 47,323
Cash equivalents	82,315	85,330
	96,035	132,653
Restricted cash	3,390	2,998
	<u>\$ 99,425</u>	<u>\$ 135,651</u>
Inventories:		
Finished goods	\$ 6,142	\$ 11,171
Raw materials	1,249	1,145
Reserve for obsolescence	(987)	(151)
	<u>\$ 6,404</u>	<u>\$ 12,165</u>
Property and equipment:		
Office equipment	\$ 578	\$ 537
Office software	1,037	918
Machinery	28	29
Furniture and fixtures	327	319
Leasehold improvements	1,001	1,022
Construction in progress (including internal-use software development costs)	—	19
Property and equipment, at cost	2,971	2,844
Accumulated depreciation and amortization	(2,236)	(1,910)
	<u>\$ 735</u>	<u>\$ 934</u>
Other accrued expenses:		
Sales returns	\$ 373	\$ 801
Employee-related expense	1,258	4,051
Warehousing, inventory-related and other	756	1,269
	<u>\$ 2,387</u>	<u>\$ 6,121</u>
Deferred revenue:		
Unshipped product	\$ 2,390	\$ 4,574
Auto ship advances	1,985	1,876
Other	131	345
	<u>\$ 4,506</u>	<u>\$ 6,795</u>

As of December 31, 2019, cash and cash equivalents include \$9.1 million held in banks located within China subject to foreign currency controls.

5. FAIR VALUE MEASUREMENTS

Investments by significant category included in cash equivalents at the end of each period were as follows (in thousands):

	Fair Value Level ¹	December 31, 2019			December 31, 2018		
		Adjusted Cost	Gross Unrealized Losses	Fair Value	Adjusted Cost	Gross Unrealized Losses	Fair Value
Money market funds	Level 1	\$ 11,659	\$ —	\$ 11,659	\$ 3,281	\$ —	\$ 3,281
Time deposits	Level 2	13,544	—	13,544	18,071	—	18,071
Municipal debt securities	Level 2	347	—	347	12,149	(7)	12,142
Corporate debt securities	Level 2	56,784	(19)	56,765	51,862	(26)	51,836
Total investments		\$ 82,334	\$ (19)	\$ 82,315	\$ 85,363	\$ (33)	\$ 85,330

¹ FASB Topic 820, *Fair Value Measurements*, establishes a fair value hierarchy that requires the use of observable market data, when available, and prioritizes the inputs to valuation techniques used to measure fair value in the following categories:

Level 1: Quoted market prices in active markets for identical assets or liabilities.

Level 2: Observable market-based inputs or unobservable inputs that are corroborated by market data.

Level 3: Unobservable inputs that are not corroborated by market data.

6. LEASES

The Company leases 9,600 square feet of office space in Hong Kong with a term expiring in February 2021. The Company leases 4,900 square feet of office space in Rolling Hills Estates, California with a term expiring in September 2025. To help further develop the market for its products in North America, the Company leases 2,400, 1,600 and 2,000 square feet of retail space in Monterey Park, California; Richmond, British Columbia; and Metuchen, New Jersey, respectively. The Monterey Park, Richmond and Metuchen locations have terms expiring in August 2020, February 2021, and November 2022, respectively.

The Company leases nine branch offices throughout China, and additional office space in Peru, Japan, Taiwan, South Korea, Singapore, Malaysia, Vietnam, Indonesia, Thailand, India, and the Cayman Islands. The Company also leases a multi-purpose facility and factory in Zhongshan, China and 11 service stations throughout the city of Guangzhou, China that serve or will in the future serve the needs of its Chinese consumers. The Company contracts with third parties for fulfillment and distribution operations in all of its international markets. None of the Company's third party logistics contracts contain a lease as the Company does not have the right to access the warehouses or move its inventories at will.

The components of lease cost for the year ended December 31, 2019 were as follows (in thousands):

Operating leases	\$ 2,024
Short-term leases	284
Total lease cost	\$ 2,308

Cash paid for amounts included in the measurement of operating leases liabilities was \$2.0 million for the year ended December 31, 2019.

The weighted-average remaining lease term and discount rate related to operating leases as of December 31, 2019 were as follows:

Weighted-average remaining lease term (in years)	3.1
Weighted-average discount rate	5.5 %

As most of the Company's leases do not provide an implicit rate, the Company used its incremental borrowing rate, or the rate of each of its subsidiaries if available, based on the information available at the lease commencement date to determine the present value of lease payments.

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The annual scheduled lease payments of our operating lease liabilities as of December 31, 2019 were as follows (in thousands):

2020	\$	1,734
2021		739
2022		429
2023		246
2024		227
Thereafter		173
Total lease payments	\$	3,548
Less: imputed interest		(329)
Present value of lease liabilities	\$	3,219

For all asset classes, the Company elected not to recognize assets or liabilities at the acquisition date for leases that, at the acquisition date, have a remaining lease term of 12 months or less. Additionally, for all asset classes, the Company choose not to separate nonlease components from lease components and instead account for the combined lease and nonlease components associated with that lease component as a single lease component.

Future minimum lease obligations as of December 31, 2018 are as follows (in thousands):

2019	\$	1,796
2020		1,340
2021		452
2022		332
2023		208
Thereafter		327
Total minimum lease obligations	\$	4,455

7. GOODWILL

The Company's goodwill primarily consists of \$11.9 million acquired in connection with the MarketVision Communication Corp. ("MV Corp.") merger in March 2004. Due to full integration of MV Corp. into the Company and the seamless nature of the Company's operations from market to market, the entire carrying amount of goodwill is evaluated at the enterprise level. The Company's policy is to test for goodwill impairment annually during its fourth quarter.

During the fourth quarter of 2019, the Company elected to early adopt the guidance of ASU 2017-04, *Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment*, which eliminates Step 2 from the goodwill impairment test. The Company estimated fair value based on market capitalization after considering recent trends in its stock price. Upon comparing such fair value with its carrying amount, the Company recognized an impairment loss of \$1.8 million in December 2019.

The changes in the carrying amount of goodwill during 2018 and 2019 are as follows:

	December 31, 2017	Impairment Losses	December 31, 2018	Impairment Losses	December 31, 2019
Goodwill	\$ 14,145	\$ —	\$ 14,145	\$ —	\$ 14,145
Accumulated impairment losses	(12,381)	—	(12,381)	(1,764)	(14,145)
	\$ 1,764	\$ —	\$ 1,764	\$ (1,764)	\$ —

8. COMMITMENTS AND CONTINGENCIES

On January 8, 2019, the Company and its two executive officers were named in a putative securities class action filed in the United States District Court for the Central District of California, captioned *Kauffman v. Natural Health Trends Corp.*, Case No. 2:19-cv-00163. The complaint purports to assert claims on behalf of all persons who purchased or otherwise acquired our common stock between April 27, 2016 and January 5, 2019, inclusive, under (i) Section 10(b) of the Securities Exchange Act of 1934 (“Exchange Act”) and Rule 10b-5 promulgated thereunder against the Company and Chris T. Sharn and Timothy S. Davidson (together, the “Individual Defendants”), and (ii) Section 20(a) of the Exchange Act against the Individual Defendants. The complaint alleges, in part, that the Company made materially false and misleading statements regarding the legality of its business operations in China, including running an allegedly illegal multilevel marketing business. The complaint seeks an indeterminate amount of damages, plus interest and costs. On May 3, 2019, the court issued an order appointing Xia Yang as lead plaintiff and appointing The Rosen Law Firm, P. A. as lead counsel. On June 3, 2019, lead plaintiff filed an amended complaint. On June 27, 2019, the parties filed a joint stipulation seeking to postpone briefing on defendants’ motion to dismiss to allow the parties to continue ongoing discussions, which stipulation was entered by the court on July 1, 2019. On September 6, 2019, Defendants filed a motion to dismiss the amended complaint. After full briefing and oral argument, the court issued an order on December 20, 2019, dismissing the complaint for failure to adequately plead any false or misleading statement and ordering that any amended complaint be filed on or before January 13, 2020. On January 13, 2020, plaintiff filed a notice of intent not to file an amended complaint. On January 17, 2020, the court issued an order dismissing the action with prejudice and ordering that judgment be entered for Defendants. On February 14, 2020, Plaintiff filed a notice of appeal to the Ninth Circuit Court of Appeals. Plaintiff’s opening brief is currently due on June 1, 2020, and Defendants’ responding brief is currently due on July 1, 2020. Defendants believe that these claims are without merit and intend to vigorously defend against them.

The SEC is conducting a non-public investigation to determine whether there have been violations of the federal securities laws relating to the trading of the Company’s securities and/or its public disclosures. The Company has fully cooperated with the SEC and continues to do so. The amount of time needed to resolve this matter is uncertain, and the Company cannot predict the outcome or whether it will face additional governmental inquiries or other actions.

The Company has employment agreements with certain members of its management team that can be terminated by either the employee or the Company upon four weeks’ notice. The employment agreements entered into with the management team contain provisions that guarantee the payments of specified amounts in the event of a change in control, as defined, or if the employee is terminated without cause, as defined, or terminates employment for good reason, as defined.

9. STOCKHOLDERS’ EQUITY*Authorized Shares*

The Company is authorized to issue two classes of capital stock consisting of up to 5,000,000 shares of preferred stock, \$0.001 par value, and 50,000,000 shares of common stock, \$0.001 par value.

Dividends

The following tables summarize the Company’s cash dividend activity during 2019 and 2018 (in thousands, except per share data):

Declaration Date	Per Common Share	Amount	Payment Date
October 29, 2019 (special)	\$ 0.40	\$ 4,608	November 29, 2019
January 27, 2019 (special)	0.08	912	March 15, 2019
January 27, 2019	0.16	1,824	March 15, 2019
	<u>\$ 0.64</u>	<u>\$ 7,344</u>	

Declaration Date	Per Common Share	Amount	Payment Date
October 21, 2018 (special)	\$ 0.18	\$ 2,048	November 23, 2018
October 21, 2018	0.16	1,820	November 23, 2018
July 18, 2018 (special)	0.25	2,844	August 24, 2018
July 18, 2018	0.15	1,707	August 24, 2018
April 17, 2018 (special)	1.76	20,022	May 25, 2018
April 17, 2018	0.14	1,592	May 25, 2018
February 6, 2018	0.13	1,479	March 9, 2018
	<u>\$ 2.77</u>	<u>\$ 31,512</u>	

Declaration and payment of any future dividends on shares of common stock will be at the sole discretion of the Company's Board of Directors.

Stock Repurchases

On January 12, 2016, the Board of Directors authorized an increase to the Company's stock repurchase program first approved on July 28, 2015 from \$15.0 million to \$70.0 million. Repurchases are expected to be executed to the extent that the Company's earnings and cash-on-hand allow, and will be made in accordance with all applicable securities laws and regulations, including Rule 10b-18 of the Exchange Act. For all or a portion of the authorized repurchase amount, the Company may enter into one or more plans that are compliant with Rule 10b5-1 of the Exchange Act that are designed to facilitate these purchases. The stock repurchase program does not require the Company to acquire a specific number of shares, and may be suspended from time to time or discontinued.

On May 16, 2019, the Company's Board of Directors authorized the Company to proceed with the purchase of up to \$8.0 million in shares of common stock under the foregoing stock repurchase program. In connection therewith, the Company was advised that George K. Broady, a director of the Company and beneficial owner of more than 5% of its outstanding shares of common stock, would participate in the stock repurchase program through The George K. Broady 2012 Irrevocable Trust (the "Broady Trust") on a basis roughly proportional to his family's ownership interest in the Company (See Note 11). During May 2019, the Company authorized its broker to proceed with the purchase of shares of the Company's common stock in the open market for a total purchase price of \$4.7 million. The stock repurchases, which included both open market purchases and the purchase of shares from the Broady Trust, were completed May 31, 2019 and resulted in the Company purchasing a total of 612,729 shares of its common stock for an aggregate purchase price of \$6.7 million, plus transaction costs.

On August 6, 2019, the Company's Board of Directors authorized the Company to proceed with additional purchases under the foregoing stock repurchase program in the open market. During August and September 2019, the Company purchased a total of 383,127 shares of common stock in the open market for an aggregate purchase price of \$2.9 million, plus transaction costs. During December 2019, the Company purchased a total of 97,785 shares of common stock for an aggregate purchase price of \$552,000, plus transaction costs.

As of December 31, 2019, \$21.9 million of the \$70.0 million stock repurchase program approved on July 28, 2015 and increased on January 12, 2016 remained available for future purchases, inclusive of related estimated income tax.

Restricted Stock

At the Company's annual meeting of stockholders held on April 7, 2016, the Company's stockholders approved the Natural Health Trends Corp. 2016 Equity Incentive Plan (the "2016 Plan") to replace its 2007 Equity Incentive Plan. The 2016 Plan allows for the grant of various equity awards including incentive stock options, non-statutory options, stock, stock units, stock appreciation rights and other similar equity-based awards to the Company's employees, officers, non-employee directors, contractors, consultants and advisors of the Company. Up to 2,500,000 shares of the Company's common stock (subject to adjustment under certain circumstances) may be issued pursuant to awards granted. At December 31, 2019, 1,219,583 shares remained available for issuance under the 2016 Plan.

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On February 1, 2019, the Company granted 22,603 shares of restricted common stock under the 2016 Plan to certain employees for the purpose of further aligning their interests with those of its stockholders and settling fiscal 2018 performance incentives totaling \$377,000. The shares vest on a quarterly basis over the next three years and are subject to forfeiture in the event of an employee's termination of service to the Company under specified circumstances.

On August 9, 2019 the Compensation Committee amended the LTI Plan to provide that all then unpaid cash benefits earned by currently employed participants under the LTI Plan with respect to performance periods that concluded on or prior to December 31, 2018 shall be paid in the form of an award of shares of restricted stock under the Company's 2016 Equity Incentive Plan. Accordingly, on August 9, 2019, the Company awarded 1,117,485 shares of restricted common stock to certain of its employees (subject to quarterly vesting for the three-year period following the date of award) in lieu of aggregate unpaid cash benefits of \$7.9 million earned under the LTI Plan for performance periods ending on or prior to December 31, 2018.

The following table summarizes the Company's restricted stock activity under the 2016 Plan:

	Shares	Wtd. Avg. Price at Date of Issuance
Nonvested at December 31, 2017	58,032	\$ 28.59
Granted	34,202	16.19
Vested	(46,748)	26.31
Nonvested at December 31, 2018	45,486	21.61
Granted	1,140,088	7.27
Vested	(227,892)	9.84
Nonvested at December 31, 2019	957,682	7.34

Accumulated Other Comprehensive Loss

The changes in accumulated other comprehensive loss by component for 2019 were as follows (in thousands):

	Foreign Currency Translation Adjustments	Unrealized Gains (Losses) on Available-For-Sale Investments	Total
Balance, December 31, 2018	\$ (1,217)	\$ (33)	\$ (1,250)
Other comprehensive income (loss)	(28)	14	(14)
Balance, December 31, 2019	\$ (1,245)	\$ (19)	\$ (1,264)

10. INCOME TAXES

The components of income (loss) before income taxes consist of the following (in thousands):

	Year Ended December 31,	
	2019	2018
Domestic	\$ (4,917)	\$ (3,391)
Foreign	(680)	37,912
Income (loss) before income taxes	\$ (5,597)	\$ 34,521

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The components of the income tax provision consist of the following (in thousands):

	Year Ended December 31,	
	2019	2018
Current:		
Federal	\$ 399	\$ 1,815
State	33	13
Foreign	398	1,300
Total current taxes	830	3,128
Deferred taxes	(816)	358
Income tax provision	\$ 14	\$ 3,486

A reconciliation of the reported income tax provision to the provision (benefit) that would result from applying the domestic federal statutory tax rate to pretax income (loss) is as follows (in thousands):

	Year Ended December 31,	
	2019	2018
Income tax at federal statutory rate	\$ (1,175)	\$ 7,249
Effect of permanent differences	260	346
Goodwill impairment	375	—
Tax Cut & Jobs Act one-time transition tax	—	(738)
Global Intangible Low-Taxed Income	364	3,964
Change in valuation allowance	106	(9)
Foreign rate differential	13	(6,541)
Foreign tax credits	10	(786)
Other reconciling items	61	1
Income tax provision	\$ 14	\$ 3,486

Income (loss) before income taxes and the statutory tax rate for each country that materially contributed to the foreign rate differential presented above is as follows (in thousands):

	Statutory Tax Rate	Year Ended December 31,	
		2019	2018
Cayman Islands	—%	\$ (2,746)	\$ 31,560
Hong Kong	16.5%	3,441	3,545
China	25.0%	(1,644)	2,725

Deferred income taxes consist of the following (in thousands):

	December 31,	
	2019	2018
Deferred tax assets:		
Net operating losses	\$ 1,477	\$ 183
Stock-based compensation	925	191
Operating lease liabilities	335	—
Accrued expenses	67	1,248
Other	6	11
Total deferred tax assets	2,810	1,633
Valuation allowance	(289)	(183)
Net deferred tax assets	2,521	1,450
Deferred tax liabilities:		
Operating lease assets	(313)	—
Foreign deferreds	(202)	(186)
Other	(169)	(243)
Total deferred tax liabilities	(684)	(429)
Net deferred tax assets	\$ 1,837	\$ 1,021

The effective income tax rate for the year ended December 31, 2019 was impacted by permanent differences including a true-up of the Global Intangible Low-Taxed Income (“GILTI”) provision for the tax year ended December 31, 2018 and goodwill impairment for the year ended December 31, 2019.

As of December 31, 2019, the Company does not have a valuation allowance against its U.S. deferred tax assets. The Company analyzed all sources of available income and determined that they are more likely than not to realize the tax benefits of their deferred assets. As of December 31, 2019, the Company has a valuation allowance against certain foreign deferred tax assets. The Company is recording a valuation allowance in foreign jurisdictions with an overall net operating loss. The valuation allowance will be reduced at such time as management believes it is more likely than not that the deferred tax assets will be realized. Any reductions in the valuation allowance will reduce future income tax provision.

As of December 31, 2019, the Company has U.S. federal net operating loss carryforwards of \$3.6 million with no expiration. The Company has U.S. state net operating loss carryforwards of \$2.4 million that begin expiring in 2040. At December 31, 2019, the Company has foreign net operating loss carryforwards of approximately \$3.3 million in various jurisdictions with various expirations.

As a result of capital return activities, the Company determined that a portion of its current undistributed foreign earnings is no longer deemed reinvested indefinitely by its non-U.S. subsidiaries. For state income tax purposes, the Company will continue to periodically reassess the needs of its foreign subsidiaries and update its indefinite reinvestment assertion as necessary. To the extent that additional foreign earnings are not deemed permanently reinvested, the Company expects to recognize additional income tax provision at the applicable state corporate income tax rate(s). As of December 31, 2019, the Company has not recorded a state deferred tax liability for earnings that the Company plans to repatriate out of accumulated earnings in future periods. Due to the U.S. Tax Cuts and Jobs Act in 2017, repatriation from foreign subsidiaries will be offset with a dividends received deduction, resulting in little to no impact on federal tax expense. All undistributed earnings in excess of 50% of current earnings on an annual basis are intended to be reinvested indefinitely as of December 31, 2019.

The Company and its subsidiaries file tax returns in the United States, California, New Jersey and Texas and various foreign jurisdictions. During the fourth quarter of 2018, the Company was notified that it was selected for audit of the 2016 tax year by the U.S. Internal Revenue Service. The audit was recently expanded to also include the 2017 and 2018 tax years. For purposes of this audit, fiscal years since 2007 are open for examination by tax authorities as a result of net operating loss carryovers from older years being used to offset income in recent tax years. No adjustments have been proposed at this time. The Company is no longer subject to state income tax examinations for years prior to 2015.

11. RELATED PARTY TRANSACTIONS

The Company is a party to a Royalty Agreement and License with Broady Health Sciences, L.L.C., a Texas limited liability company, (“BHS”) regarding the manufacture and sale of a product called *ReStor*TM. George K. Broady, a director of the Company and beneficial owner of more than 5% of its outstanding common stock, is owner of BHS. Under this agreement, the Company agreed to pay BHS a price per unit royalty in return for the right to manufacture (or have manufactured), market, import, export and sell this product worldwide, with certain rights being exclusive outside the United States. The Company recognized royalties of \$96,000 and \$327,000 during 2019 and 2018, respectively, under this agreement. The Company is not required to purchase any product under the agreement, and the agreement may be terminated at any time on 120 days’ notice or, under certain circumstances, with no notice. Otherwise, the agreement terminates March 31, 2020.

During each of 2019 and 2018, the Company procured in China and arranged for shipment to The Aberdeen Group, LLC (“Aberdeen”) one order of apparel products. Aberdeen is owned 40% by Sharnq Holdings, which is wholly-owned by the Company’s president, Chris T. Sharnq, and his wife, 40% by Mr. Broady, and 20% by an unrelated third party. Aberdeen promptly paid the Company for the product and shipping cost incurred. Such orders were in the amount of \$7,100 and \$3,700 during 2019 and 2018, respectively. Given the Company’s provision of such product sourcing service to Aberdeen, Aberdeen also paid the Company a market-based fee consistent with the provision of such service of \$420 and \$220 for services performed during 2019 and 2018, respectively. The Company analyzed the nature of the transactions with Aberdeen to determine whether it could be construed a violation under the guidelines of Section 402 of the Sarbanes-Oxley Act of 2002. The Company, through advice from its legal counsel, concluded that there is not a reasonable possibility that the transactions with Aberdeen would be deemed a violation of Section 402. This relationship between the Company and Aberdeen ceased following the completion of the 2019 transaction, which occurred during the first fiscal quarter of 2019.

On May 17, 2019, the Company entered into a Stock Repurchase Agreement with The George K. Broady 2012 Irrevocable Trust (“Broady Trust”). Mr. Broady is the trustee and a beneficiary of the Broady Trust. The Stock Repurchase Agreement, which the Company and the Broady Trust entered into in accordance with Rule 10b5-1 under the Securities Exchange Act of 1934, provided for the Company’s purchase of common stock from the Broady Trust in off-the-market, private transactions at a rate of 0.4105 times the number of shares purchased by the Company’s broker in the open market as part of the stock repurchase program authorized by the Company’s Board of Directors on May 16, 2019. The Company’s purchases from the Broady Trust concluded on May 31, 2019, were completed at a per share purchase price equal to the weighted average price per share paid by the Company’s broker in its open-market purchases, and resulted in the purchase of 178,324 shares of common stock for an aggregate purchase price of \$1.9 million. See Note 9.

12. EMPLOYEE BENEFIT PLANS

The Company has a 401(k) defined contribution plan which permits participating employees in the United States to defer up to a maximum of 90% of their compensation, subject to limitations established by the Internal Revenue Service. Employees age 21 and older are eligible to contribute to the plan starting the first day of the following month of employment. Participating employees are eligible to receive discretionary matching contributions and profit sharing, subject to certain conditions, from the Company. In 2019 and 2018, the Company matched employee deferral contributions up to 4.5% of salary, which vested 100% immediately. No profit sharing has been paid under the plan. The Company recorded compensation expense of \$85,000 and \$87,000 for 2019 and 2018, respectively, related to its matching contributions to the plan. Certain of the Company’s employees located outside the United States participate in employee benefit plans that are statutory in nature.

13. SEGMENT INFORMATION

The Company sells products to a member network that operates in a seamless manner from market to market, except for the China market where it sells to some consumers through an e-commerce platform, and the Russia and Kazakhstan market where the Company’s engagement of a third-party service provider results in a different economic structure than its other markets. Otherwise, the Company believes that all of its other operating segments have similar economic characteristics and are similar in the nature of the products sold, the product acquisition process, the types of customers products are sold to, the methods used to distribute the products, and the nature of the regulatory environment. Therefore, the Company aggregates its other operating segments into a single reporting segment (the “Primary Reporting Segment”).

The Company reviews its net sales and operating income (loss) by operating segment, and reviews its assets and capital expenditures on a consolidated basis and not by operating segment. As such, net sales and operating income (loss) are presented by reportable segment and assets and capital expenditures by operating segment are not presented. Segment operating income (loss) is adjusted for certain direct costs and commission allocation.

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The Company's operating information by geographic area are as follows (in thousands):

	Year Ended December 31,	
	2019	2018
Net sales:		
Primary Reporting Segment	\$ 73,693	\$ 183,298
China	2,941	7,744
Russia and Kazakhstan	980	868
Total net sales	<u>\$ 77,614</u>	<u>\$ 191,910</u>
Income (loss) from operations:		
Primary Reporting Segment	\$ 9,339	\$ 45,851
China	(1,719)	2,579
Russia and Kazakhstan	(115)	(154)
Total income (loss) from operations for reportable segments	7,505	48,276
Unallocated corporate expenses	(14,528)	(14,544)
Other income, net	1,426	789
Income (loss) before income taxes	<u>\$ (5,597)</u>	<u>\$ 34,521</u>

The Company's net sales by geographic area are as follows (in thousands):

	Year Ended December 31,	
	2019	2018
Net sales from external customers:		
United States	\$ 2,003	\$ 3,637
Canada	1,048	1,710
Peru	2,380	1,635
Hong Kong ¹	62,724	169,452
China	2,941	7,744
Taiwan	3,126	3,964
South Korea	368	493
Russia and Kazakhstan	980	868
Europe	1,370	1,644
Other foreign countries	674	763
Total net sales	<u>\$ 77,614</u>	<u>\$ 191,910</u>

¹ Substantially all of our Hong Kong revenues are derived from the sale of products that are delivered to members in China. See "Item 1A. Risk Factors".

The Company's net sales by product and service are as follows (in thousands):

	Year Ended December 31,	
	2019	2018
Net sales by product and service:		
Product sales	\$ 73,048	\$ 181,865
Freight and other	6,106	13,329
Less: sales returns	(1,540)	(3,284)
Total net sales	<u>\$ 77,614</u>	<u>\$ 191,910</u>

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Due to system constraints, it is impracticable for the Company to separately disclose sales by product category for the years presented.

The Company's long-lived assets by geographic area are as follows (in thousands):

	December 31,	
	2019	2018
Long-lived assets:		
United States	\$ 379	\$ 521
Hong Kong	135	145
China	57	61
Other foreign countries	164	207
Total long-lived assets	<u>\$ 735</u>	<u>\$ 934</u>

14. SUBSEQUENT EVENTS

On February 10, 2020, the Board of Directors declared a quarterly cash dividend of \$0.20 on each share of common stock outstanding. The dividend was paid on March 6, 2020 to stockholders of record on February 25, 2020. Declaration and payment of any future dividends on shares of common stock will be at the sole discretion of the Company's Board of Directors.

In early 2020 an outbreak of the coronavirus (COVID-19) was identified in Wuhan, China. The coronavirus has since spread within China and infections have been found in a number of countries around the world. The outbreak caused the Chinese government to implement powerful measures to control the virus, such as requiring businesses to close throughout various areas of China and restricting public gatherings and certain travel within the country. The Company conducts significant business in or near Wuhan and in 2019 generated approximately 81% of its revenue in Hong Kong, substantially all of which was derived from the sale of products to members in China.

While the scope and impact of the outbreak and related control measures are uncertain, the Company is taking steps to adapt some of its marketing programs, such as relying on certain product promotions and webcast training, to overcome the physical restrictions imposed in response to the outbreak. The Company also determined to move its first half major event from March into the second half of 2020, as the health and safety of its employees, members and customers is a top priority. The severity of the impact on the Company will depend on future developments, including the duration and spread of the outbreak, and related control measures. These disruptions are expected to negatively impact the Company's operations and financial results for at least the first quarter of 2020, as well as the operations of the Company's third party logistics providers within certain provinces in China. The Company will continue to assess the operational and financial impact for the remainder of the year.

Item 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Not applicable.

Item 9A. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

Management, with the participation of our principal executive officer and principal financial officer, evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) of the Exchange Act) as of December 31, 2019. Our disclosure controls and procedures are designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission rules and forms, and that such information is accumulated and communicated to management, including our principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosure. Based on this evaluation and as disclosed in “Management’s Annual Report on Internal Control over Financial Reporting” below, the principal executive officer and principal financial officer concluded that our disclosure controls and procedures were effective as of December 31, 2019.

Management’s Annual Report on Internal Control over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is a process designed by, or under the supervision of, our principal executive and principal financial officers and effected by our Board of Directors, management and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles and includes those policies and procedures that:

- pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of our assets;
- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with authorizations of our management and directors; and
- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on the financial statements.

Because of inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are subject to the risks that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management evaluates the effectiveness of our internal control over financial reporting by using the criteria established in *Internal Control – Integrated Framework (2013)*, issued by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”). Based on this criteria, management concluded that our internal control over financial reporting as of December 31, 2019 was effective.

Changes in Internal Control over Financial Reporting

Other than with respect to the remediation efforts discussed below, there were no changes in internal control over financial reporting that occurred during the quarter ended December 31, 2019 that have materially affected, or are reasonably likely to materially affect, internal control over financial reporting.

Remediation Efforts to Address Material Weakness

Management, with oversight from the Audit Committee, implemented a plan intended to remediate the material weakness identified as of December 31, 2018 related to the Company's review of shipment documentation provided by its third-party logistics ("3PL") facilities. Amongst other enhancements of controls, the remediation plan included the following:

- Obtaining and documenting a sufficient sample of product orders during each quarterly period and ensuring that the underlying shipment documentation agrees with the shipment date as provided by the 3PLs; and
- Review of monthly deferred revenue reports by logistics staff to ensure unshipped items are validated.

During the fourth quarter of 2019, we completed an evaluation of the testing results of these and other controls related to the control environment which led to the material weakness and found the controls to be operating effectively. As the Company deemed these controls to be effective, management concluded that the material weakness in the Company's internal control over financial reporting related to the review of shipment documentation was successfully remediated as of December 31, 2019.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM ON INTERNAL CONTROL OVER FINANCIAL REPORTING

To the Shareholders and Board of Directors of
Natural Health Trends Corp.

Opinion on Internal Control over Financial Reporting

We have audited Natural Health Trends Corp.'s (the "Company") internal control over financial reporting as of December 31, 2019, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2019, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB"), the consolidated balance sheets as of December 31, 2019 and 2018, and the related consolidated statements of operations, comprehensive income (loss), stockholders' equity, and cash flows and the related notes for each of the two years in the period ended December 31, 2019 of the Company, and our report dated March 9, 2020 expressed an unqualified opinion on those financial statements.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying "Management's Annual Report on Internal Control Over Financial Reporting." Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that degree of compliance with the policies or procedures may deteriorate.

/s/ Marcum LLP
Marcum LLP

Los Angeles, CA
March 9, 2020

Item 9B. OTHER INFORMATION

None.

Part III

Item 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required by this Item is incorporated by reference from the definitive proxy statement to be filed with the SEC within 120 days after December 31, 2019.

Item 11. EXECUTIVE COMPENSATION

The information required by this Item is incorporated by reference from the definitive proxy statement to be filed with the SEC within 120 days after December 31, 2019.

Item 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information required by this Item is incorporated by reference from the definitive proxy statement to be filed with the SEC within 120 days after December 31, 2019.

Item 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information required by this Item is incorporated by reference from the definitive proxy statement to be filed with the SEC within 120 days after December 31, 2019.

Item 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required by this Item is incorporated by reference from the definitive proxy statement to be filed with the SEC within 120 days after December 31, 2019.

Part IV

Item 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

Documents filed as part of this Form 10-K:

1. Financial Statements. See Index to Consolidated Financial Statements under “Item 8. Financial Statements and Supplementary Data” of this report.
2. Financial Statement Schedules. Financial statement schedules have been omitted because they are not required, not applicable, or because the required information is shown in the financial statements or notes thereto.
3. Exhibits. The exhibits listed on the accompanying Exhibit Index are filed as a part of, and are incorporated by reference into, this report. We will furnish any of the exhibits referenced in the accompanying Exhibit Index to a requesting shareholder upon payment of a fee equal to our reasonable expenses in furnishing such exhibit(s).

Item 16. FORM 10-K SUMMARY

None.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this Annual Report on Form 10-K to be signed on its behalf by the undersigned, thereunto duly authorized.

NATURAL HEALTH TRENDS CORP.

Date: March 9, 2020

/s/ Chris T. Sharng

Chris T. Sharng

President

(Principal Executive Officer)

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS that each of Natural Health Trends Corp., a Delaware corporation, and the undersigned directors and officers of Natural Health Trends Corp., hereby constitutes and appoints Chris T. Sharng and Timothy S. Davidson, or any one of them, its, his or her true and lawful attorney-in-fact and agent, for it, him or her and in its, his or her name, place and stead, in any and all capacities, with full power to act alone, to sign any and all amendments to this report, and to file each such amendment to the report, with all exhibits thereto, and any and all other documents in connection therewith, with the Securities and Exchange Commission, hereby granting unto said attorney-in-fact and agent full power and authority to do and perform any and all acts and things requisite and necessary to be done in and about the premises as fully to all intents and purposes as it, he or she might or could do in person, hereby ratifying and confirming all that said attorney-in-fact and agent may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ Chris T. Sharng</u> Chris T. Sharng	President and Director (Principal Executive Officer)	March 9, 2020
<u>/s/ Timothy S. Davidson</u> Timothy S. Davidson	Senior Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)	March 9, 2020
<u>/s/ Randall A. Mason</u> Randall A. Mason	Chairman of the Board and Director	March 9, 2020
<u>/s/ George K. Broady</u> George K. Broady	Director	March 9, 2020
<u>/s/ Kin Y. Chung</u> Kin Y. Chung	Director	March 9, 2020
<u>/s/ Yiu T. Chan</u> Yiu T. Chan	Director	March 9, 2020

EXHIBIT INDEX
(Pursuant to Item 601 of Regulation S-K)

Exhibit Number	Exhibit Description
3.1	Certificate of Incorporation of Natural Health Trends Corp. (incorporated by reference to Exhibit 3.01 to Current Report on Form 8-K filed on July 12, 2005).
3.2	Second Amended and Restated Bylaws of Natural Health Trends Corp. effective February 6, 2020 (filed herewith).
4.1	Specimen Certificate for shares of common stock, \$.001 par value per share, of Natural Health Trends Corp. (incorporated by reference to Exhibit 4.01 to Annual Report on Form 10-K filed on May 8, 2006).
4.2	Description of Securities (filed herewith).
+10.1	Natural Health Trends Corp. 2016 Equity Incentive Plan (incorporated by reference to Appendix C to Definitive Proxy Statement filed on March 4, 2016).
+10.2	First Amendment to the Natural Health Trends Corp. 2016 Equity Incentive Plan dated October 10, 2019 (incorporated by reference to Exhibit 10.1 to Current Report on Form 8-K filed October 11, 2019).
+10.3	Form of Restricted Stock Award Agreement under the 2016 Equity Incentive Plan (incorporated by reference to Exhibit 10.2 to Annual Report on Form 10-K filed March 4, 2016).
+10.4	Form of Restricted Stock Award Agreement under the 2016 Equity Incentive Plan (Exempt Award to “U.S. Person” Under Regulation D) (filed herewith).
+10.5	Form of Restricted Stock Award Agreement under the 2016 Equity Incentive Plan (Exempt Award to “Non-U.S. Person” Under Regulation S) (filed herewith).
+10.6	Natural Health Trends Corp. Annual Incentive Plan (Restated as of January 1, 2016) (incorporated by reference to Appendix A to Definitive Proxy Statement filed on March 4, 2016).
+10.7	Natural Health Trends Corp. 2014 Long-Term Incentive Plan (Restated as of January 1, 2016) (incorporated by reference to Appendix B to Definitive Proxy Statement filed on March 4, 2016).
+10.8	First Amendment to the Natural Health Trends Corp. 2014 Long-Term Incentive Plan (Restated as of January 1, 2016) (incorporated by reference to Exhibit 10.5 to Annual Report on Form 10-K filed on March 10, 2017).
+10.9	Second Amendment to the Natural Health Trends Corp. 2014 Long-Term Incentive Plan (Restated as of January 1, 2016) dated August 9, 2019 (incorporated by reference to Exhibit 10.1 to Current Report on Form 8-K filed August 13, 2019).
+10.10	Employment Agreement (including form of Non-Competition and Proprietary Rights Assignment Agreement) for Chris T. Sharnq, dated April 23, 2007 (incorporated by reference to Exhibit 10.1 to Current Report on Form 8-K filed on April 26, 2007).
+10.11	Employment Agreement (including form of Non-Competition and Proprietary Rights Assignment Agreement) for Timothy S. Davidson dated April 23, 2007 (incorporated by reference to Exhibit 10.2 to Current Report on Form 8-K filed on April 26, 2007).
+10.12	Form of Indemnification Agreement dated February 11, 2015, between Natural Health Trends Corp. and each of its directors and executive officers (incorporated by reference to Exhibit 10.1 to Current Report on Form 8-K filed on February 12, 2015).
10.13	Stock Repurchase Agreement between Natural Health Trends Corp. and The George K. Broady 2012 Irrevocable Trust dated May 17, 2019 (incorporated by reference to Exhibit 10.1 to Current Report on Form 8-K filed on May 17, 2019).
21.1	Subsidiaries of Natural Health Trends Corp. (filed herewith).
24.1	Power of Attorney (see signature page).
31.1	Certification of Principal Executive Officer pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith).
31.2	Certification of Principal Financial Officer pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith).
32.1	Certifications of Principal Executive Officer and Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith).
101.INS	<i>Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document</i>
101.SCH	<i>XBRL Taxonomy Extension Schema</i>

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101.CAL XBRL Taxonomy Extension Calculation

101.DEF XBRL Taxonomy Extension Definition

101.LAB XBRL Taxonomy Extension Labels

101.PRE XBRL Taxonomy Extension Presentation

+ Management contract or compensatory plan

SECOND AMENDED AND RESTATED BYLAWS

Of

NATURAL HEALTH TRENDS CORP.

(A DELAWARE CORPORATION)

As amended and restated by the Board of Directors, effective February 6, 2020

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ARTICLE I

OFFICES

1.1 Registered Office. The registered office of the Corporation shall be in the City of Wilmington, County of New Castle, State of Delaware.

1.2 Other Offices. The Corporation may also have offices at such other place or places, both within and without the State of Delaware, as the Board of Directors may from time to time determine or the business of the Corporation may require.

ARTICLE II

MEETINGS OF STOCKHOLDERS

2.1 Time and Place of Meetings. All meetings of the stockholders for the election of directors shall be held at such time and place, either within or without the State of Delaware, as shall be designated from time to time by the Board of Directors and stated in the notice of the meeting. Meetings of stockholders for any other purpose may be held at such time and place, within or without the State of Delaware, as shall be stated in the notice of the meeting or in a duly executed waiver of notice thereof.

2.2 Annual Meetings. Annual meetings of stockholders shall be held on such date and at such time as shall be designated from time to time by the Board of Directors and stated in the notice of the meeting, at which meeting the stockholders shall elect by a plurality vote a Board of Directors and transact such other business as may properly be brought before the meeting.

2.3 Notice of Annual Meetings. Written notice of the annual meeting, stating the place, date, and hour of the meeting, shall be given to each stockholder of record entitled to vote at such meeting not less than 10 or more than 60 days before the date of the meeting. If mailed, such notice shall be deemed to be delivered when deposited in the United States mail, addressed to the stockholder at his address as it appears on the stock transfer books of the Corporation with postage thereon prepaid.

2.4 Special Meetings. Special meetings of the stockholders for any purpose or purposes, unless otherwise prescribed by statute or by the Certificate of Incorporation, may be called only by the Chairman of the Board, the Chief Executive Officer, or a majority of the members of the Board of Directors then in office. Such request shall state the purpose or purposes of the proposed special meeting. Business transacted at any special meeting of stockholders shall be limited to the purposes stated in the notice.

2.5 Notice of Special Meetings. Written notice of a special meeting, stating the place, date, and hour of the meeting and the purpose or purposes for which the meeting is called, shall be given to each stockholder of record entitled to vote at such meeting not less than 10 or more than 60 days before the date of the meeting. If mailed, such notice shall be deemed to be delivered when deposited in the United States mail, addressed to the stockholder at his address as it appears on the stock transfer books of the Corporation with postage thereon prepaid.

2.6 Quorum. Except as otherwise provided by statute or the Certificate of Incorporation, the holders of stock having a majority of the voting power of the stock entitled to be voted thereat,



present in person or represented by proxy, shall constitute a quorum for the transaction of business at all meetings of the stockholders. If, however, such quorum shall not be present or represented at any meeting of the stockholders, the stockholders entitled to vote thereat, present in person or represented by proxy, shall have power to adjourn the meeting from time to time without notice (other than announcement at the meeting at which the adjournment is taken of the time and place of the adjourned meeting) until a quorum shall be present or represented. At such adjourned meeting at which a quorum shall be present or represented, any business may be transacted which might have been transacted at the meeting as originally notified. If the adjournment is for more than 30 days, or if after the adjournment a new record date is fixed for the adjourned meeting, notice of the adjourned meeting shall be given to each stockholder of record entitled to vote at the meeting.

2.7 Organization. At each meeting of the stockholders, the Chairman of the Board or the President, determined as provided in Article VII of these Bylaws, or if those officers shall be absent therefrom, another officer of the Corporation chosen as chairman present in person or by proxy and entitled to vote thereat, or if all the officers of the Corporation shall be absent therefrom, a stockholder holding of record shares of stock of the Corporation so chosen, shall act as chairman of the meeting and preside thereat. The Secretary, or if he shall be absent from such meeting or shall be required pursuant to the provisions of this Section 2.7 to act as chairman of such meeting, the person (who shall be an Assistant Secretary, if an Assistant Secretary shall be present thereat) whom the chairman of such meeting shall appoint, shall act as secretary of such meeting and keep the minutes thereof.

2.8 Voting. Except as otherwise provided in the Certificate of Incorporation, each stockholder shall, at each meeting of the stockholders, be entitled to one vote in person or by proxy for each share of stock of the Corporation held by him and registered in his name on the books of the Corporation on the date fixed pursuant to the provisions of Section 9.6 of Article IX of these Bylaws as the record date for the determination of stockholders who shall be entitled to notice of and to vote at such meeting. Shares of its own stock belonging to the Corporation or to another corporation, if a majority of the shares entitled to vote in the election of directors of such other corporation is held directly or indirectly by the Corporation, shall not be entitled to vote. Any vote by stock of the Corporation may be given at any meeting of the stockholders by the stockholder entitled thereto, in person or by his proxy appointed by an instrument in writing subscribed by such stockholder or by his attorney thereunto duly authorized and delivered to the Secretary of the Corporation or to the secretary of the meeting; provided, however, that no proxy shall be voted or acted upon after three years from its date, unless said proxy shall provide for a longer period. Each proxy shall be revocable unless expressly provided therein to be irrevocable and unless otherwise made irrevocable by law. At all meetings of the stockholders all matters, except where other provision is made by law, the Certificate of Incorporation, or these Bylaws, shall be decided by the vote of a majority of the votes cast by the stockholders present in person or by proxy and entitled to vote thereat, a quorum being present. Unless demanded by a stockholder of the Corporation present in person or by proxy at any meeting of the stockholders and entitled to vote thereat, or so directed by the chairman of the meeting, the vote thereat on any question other than the election or removal of directors need not be by written ballot. Upon a demand of any such stockholder for a vote by written ballot on any question or at the direction of such chairman that a vote by written ballot be taken on any question, such vote shall be taken by written ballot. On a vote by written ballot, each ballot shall be signed by the stockholder voting, or by his proxy, if there be such proxy, and shall state the number of shares voted.

there be such proxy, and shall state the number of shares voted.

2.9 List of Stockholders. It shall be the duty of the Secretary or other officer of the Corporation who shall have charge of its stock ledger, either directly or through another officer of the Corporation designated by him or through a transfer agent appointed by the Board of Directors, to prepare and make, at least 10 days before every meeting of the stockholders, a complete list of the stockholders entitled to vote thereat, arranged in alphabetical order, and showing the address of each stockholder and the number of shares registered in the name of each stockholder. Such list shall be open to the examination of any stockholder, for any purpose germane to the meeting, during ordinary business hours, for a period of at least 10 days before said meeting, either at a place within the city where said meeting is, to be held, which place shall be specified in the notice of said meeting, or, if not so specified, at the place where said meeting is to be held. The list shall also be produced and kept at the time and place of said meeting during the whole time thereof, and may be inspected by any stockholder of record who shall be present thereat. The stock ledger shall be the only evidence as to who are the stockholders entitled to examine the stock ledger, such list or the books of the Corporation, or to vote in person or by proxy at any meeting of stockholders.

2.10 Inspectors of Votes. At each meeting of the stockholders, the chairman of such meeting may appoint two Inspectors of Votes to act thereat, unless the Board of Directors shall have theretofore made such appointments. Each Inspector of Votes so appointed shall first subscribe an oath or affirmation faithfully to execute the duties of an Inspector of Votes at such meeting with strict impartiality and according to the best of his ability. Such Inspectors of Votes, if any, shall take charge of the ballots, if any, at such meeting and, after the balloting thereat on any question, shall count the ballots cast thereon and shall make a report in writing to the secretary of such meeting of the results thereof. An Inspector of Votes need not be a stockholder of the Corporation, and any officer of the Corporation may be an Inspector of Votes on any question other than a vote for or against his election to any position with the Corporation or on any other question in which he may be directly interested.

2.11 Actions Without a Meeting. Any action required or permitted to be taken at any annual or special meeting of the stockholders may only be taken upon the vote of the stockholders at an annual or special meeting called and may not be taken by written consent of the stockholders.

2.12 Advance Notice of Stockholder Nominations and Proposals.

(a) Timely Notice. At a meeting of the stockholders, only such nominations of persons for the election of directors and such other business shall be conducted as shall have been properly brought before the meeting. To be properly brought before an annual meeting, nominations or such other business must be: (i) specified in the written notice of meeting (or any supplement thereto) given by or at the direction of the Board of Directors or any committee thereof, (ii) otherwise properly brought before the meeting by or at the direction of the Board of Directors or any committee thereof, or (iii) otherwise properly brought before an annual meeting by a stockholder who is a stockholder of record of the Corporation at the time such notice of meeting is delivered, who is entitled to vote at the meeting and who complies with the notice procedures set forth in this Section 2.12. In addition, any proposal of business (other than the nomination of persons for election to the Board of Directors) must be a proper matter for stockholder action. For business (including, but not limited to, director nominations) to be properly brought before an annual meeting by a stockholder, the stockholder intending to propose the business (the "Proposing Stockholder") must have given timely notice thereof pursuant to this Section 2.12(a) or Section 2.12(c) below, as applicable, in writing to the secretary of the Corporation even if such matter is already the subject of any notice to the stockholders or Public Disclosure from the board of

already the subject of any notice to the stockholders or public disclosure from the board of

directors. To be timely, a Proposing Stockholder's notice must be delivered to or mailed and received at the principal executive offices of the Corporation: (x) not later than the close of business on the 90th day, nor earlier than the close of business on the 120th day in advance of the anniversary of the previous year's annual meeting if such meeting is to be held on a day which is not more than 30 days in advance of the anniversary of the previous year's annual meeting or not later than 70 days after the anniversary of the previous year's annual meeting; and (y) with respect to any other annual meeting of stockholders, the close of business on the tenth day following the date of Public Disclosure of the date of such meeting. In no event shall the Public Disclosure of an adjournment or postponement of an annual meeting commence a new notice time period (or extend any notice time period).

(b) Stockholder Nominations. For the nomination of any person or persons for election to the board of directors, a Proposing Stockholder's notice to the secretary of the Corporation shall set forth (i) the name, age, business address and residence address of each nominee proposed in such notice, (ii) the principal occupation or employment of each such nominee, (iii) the number of shares of capital stock of the Corporation which are owned of record and beneficially by each such nominee (if any), (iv) such other information concerning each such nominee as would be required to be disclosed in a proxy statement soliciting proxies for the election of such nominee as a director in an election contest (even if an election contest is not involved) or that is otherwise required to be disclosed, under Section 14(a) of the Securities Exchange Act of 1934, as amended, and the rules and regulations promulgated thereunder, (v) the consent of the nominee to being named in the proxy statement as a nominee and to serving as a director if elected, and (vi) as to the Proposing Stockholder: (A) the name and address of the Proposing Stockholder as they appear on the Corporation's books and of the beneficial owner, if any, on whose behalf the nomination is being made, (B) the class and number of shares of the Corporation which are owned by the Proposing Stockholder (beneficially and of record) and owned by the beneficial owner, if any, on whose behalf the nomination is being made, as of the date of the Proposing Stockholder's notice, (C) a description of any agreement, arrangement or understanding with respect to such nomination between or among the Proposing Stockholder and any of its affiliates or associates, and any others (including their names) acting in concert with any of the foregoing, (D) a description of any agreement, arrangement or understanding (including any derivative or short positions, profit interests, options, hedging transactions, and borrowed or loaned shares) that has been entered into as of the date of the Proposing Stockholder's notice by, or on behalf of, the Proposing Stockholder or any of its affiliates or associates, the effect or intent of which is to mitigate loss to, manage risk or benefit of share price changes for, or increase or decrease the voting power of the Proposing Stockholder or any of its affiliates or associates with respect to shares of stock of the Corporation, (E) a representation that the Proposing Stockholder is a holder of record of shares of the Corporation entitled to vote at the meeting and intends to appear in person or by proxy at the meeting to nominate the person or persons specified in the notice, and (F) a representation whether the Proposing Stockholder intends to deliver a proxy statement and/or form of proxy to holders of at least the percentage of the Corporation's outstanding capital stock required to approve the nomination and/or otherwise to solicit proxies from stockholders in support of the nomination. The Corporation may require any proposed nominee to furnish such other information as it may reasonably require to determine the eligibility of such proposed nominee to serve as an independent director of the Corporation or that could be material to a reasonable stockholder's understanding of the independence, or lack thereof, of such nominee.



(c) Other Stockholder Proposals. For all business other than director nominations, a Proposing Stockholder's notice to the secretary of the Corporation shall set forth as to each matter the Proposing Stockholder proposes to bring before the annual meeting: (i) a brief description of the business desired to be brought before the annual meeting and the reasons for conducting such business at the annual meeting, (ii) any other information relating to such stockholder and beneficial owner, if any, on whose behalf the proposal is being made, required to be disclosed in a proxy statement or other filings required to be made in connection with solicitations of proxies for the proposal and pursuant to and in accordance with Section 14(a) of the Securities Exchange Act of 1934, as amended, and the rules and regulations promulgated thereunder and (iii) the information required by Section 2.12(b)(vi) above.

(d) Proxy Rules. The foregoing notice requirements of Section 2.12(c) shall be deemed satisfied by a stockholder with respect to business other than a nomination if the stockholder has notified the Corporation of his, her or its intention to present a proposal at an annual meeting in compliance with the applicable rules and regulations promulgated under Section 14(a) of the Exchange Act and such stockholder's proposal has been included in a proxy statement that has been prepared by the Corporation to solicit proxies for such annual meeting.

(e) Special Meetings of Stockholders. Only such business shall be conducted at a special meeting of stockholders as shall have been brought before the meeting pursuant to the Corporation's notice of meeting. Nominations of persons for election to the Board of Directors may be made at a special meeting of stockholders at which directors are to be elected pursuant to the Corporation's notice of meeting (x) by or at the direction of the Board of Directors or any committee thereof or (y) provided that the Board of Directors has determined that directors shall be elected at such meeting, by any stockholder of the Corporation who is a stockholder of record at the time the notice provided for in this Section 2.12 is delivered to the secretary of the Corporation, who is entitled to vote at the meeting and upon such election and who complies with the notice procedures set forth in this Section 2.12. In the event the Corporation calls a special meeting of stockholders for the purpose of electing one or more directors to the Board of Directors, any such stockholder entitled to vote in such election of directors may nominate a person or persons (as the case may be) for election to such position(s) as specified in the Corporation's notice of meeting, if the stockholder's notice required by this Section 2.12 shall be delivered to the secretary at the principal executive offices of the Corporation not later than the close of business on the 90th day prior to such special meeting and not earlier than the close of business on the later of the 120th day prior to such special meeting or the tenth (10th) day following the date of Public Disclosure of the date of the special meeting and of the nominees proposed by the Board of Directors to be elected at such meeting. In no event shall the Public Disclosure of an adjournment or postponement of a special meeting commence a new time period (or extend any notice time period).

(f) Effect of Noncompliance. Notwithstanding anything in these Bylaws to the contrary: (i) no nominations shall be made or business shall be conducted at any annual meeting except in accordance with the procedures set forth in this Section 2.12, and (ii) unless otherwise required by law, if a Proposing Stockholder intending to propose business or make nominations at an annual meeting pursuant to this Section 2.12 does not provide the information required under this Section 2.12 to the Corporation promptly following the later of the record date or the date notice of the record date is first publicly disclosed, or the Proposing Stockholder (or a qualified representative of the Proposing Stockholder) does not appear at the meeting to present the proposed business or nominations, such business or nominations shall not be considered,



notwithstanding that proxies in respect of such business or nominations may have been received by the Corporation. The requirements of this Section 2.12 shall apply to any business or nominations to be brought before an annual meeting by a stockholder whether such business or nominations are to be included in the Corporation's proxy statement pursuant to Rule 14a-8 of the Exchange Act or presented to stockholders by means of an independently financed proxy solicitation. The requirements of the Section 2.12 are included to provide the Corporation notice of a stockholder's intention to bring business or nominations before an annual or special meeting and shall in no event be construed as imposing upon any stockholder the requirement to seek approval from the Corporation as a condition precedent to bringing any such business or make such nominations before an annual meeting.

2.13 Definitions. For purposes of this Article II, "Public Disclosure" means a disclosure made in a press release reported by the Dow Jones News Services, The Associated Press or a comparable national news service or in a document filed by the Corporation with the Securities and Exchange Commission pursuant to Section 13, 14 or 15(d) of the Securities Exchange Act of 1934, as amended, and the rules and regulations promulgated thereunder.

ARTICLE III

BOARD OF DIRECTORS

3.1 Powers. The business and affairs of the Corporation shall be managed by its Board of Directors, which shall have and may exercise all such powers of the Corporation and do all such lawful acts and things as are not by statute, the Certificate of Incorporation, or these Bylaws directed or required to be exercised or done by the stockholders.

3.2 Number, Qualification and Term of Office. The number of directors which shall constitute the whole Board of Directors shall not be less than three (3) nor more than eleven (11). Within the limits above specified, the number of directors which shall constitute the whole Board of Directors shall be determined by resolution of the Board of Directors or by the stockholders at any annual or special meeting or otherwise pursuant to action of the stockholders. Directors need not be stockholders. The directors shall be elected at the annual meeting of the stockholders, except as provided in Section 3.5 of this Article III, and each director elected shall hold office until the annual meeting next after his election and until his successor is duly elected and qualified, or until his death or retirement or until he resigns or is removed in the manner hereinafter provided, but no decrease in the number of directors shall have the effect of shortening the term of any incumbent director. Directors shall be elected by a plurality of the votes of the shares present in person or represented by proxy and entitled to vote on the election of directors at any annual or special meeting of stockholders. Such election shall be by written ballot.

3.3 Resignations. Any director may resign at any time by giving written notice of his resignation to the Corporation. Any such resignation shall take effect at the time specified therein, or if the time when it shall become effective shall not be specified therein, then it shall take effect immediately upon its receipt by the Secretary. Unless otherwise specified therein, the acceptance of such resignation shall not be necessary to make it effective.



3.4 Removal of Directors. At any meeting of stockholders called expressly for the purpose of removing a director or directors, any director or the entire Board of Directors may be removed, with or without cause, with the required vote of the holders of shares then entitled to vote at an election of directors.

3.5 Vacancies. Vacancies and newly created directorships resulting from any increase in the authorized number of directors may be filled by a majority of the directors then in office though less than a quorum, or by a sole remaining director, and the directors so chosen shall hold office until the annual meeting next after their election and until their successors are elected and qualified, unless sooner displaced. If there are no directors in office, then an election of directors may be held in the manner provided by statute.

3.6 Place of Meetings. The Board of Directors of the Corporation may hold meetings, both regular and special, either within or without the State of Delaware.

3.7 Annual Meetings. The first meeting of each newly elected Board of Directors shall be held immediately following the annual meeting of stockholders, and no notice of such meeting to the newly elected directors shall be necessary in order legally to constitute the meeting, provided a quorum shall be present. In the event such meeting is not held immediately following the annual meeting of stockholders, the meeting may be held at such time and place as shall be specified in a notice given as hereinafter provided for special meetings of the Board of Directors, or as shall be specified in a written waiver signed by all of the directors.

3.8 Regular Meetings. Regular meetings of the Board of Directors may be held without notice at such time and at such place as shall from time to time be determined by the Board of Directors.

3.9 Special Meetings: Notice. Special meetings of the Board of Directors may be called by the Chairman of the Board, the President, or the Secretary on 24 hours' notice to each director, either personally or by telephone or by mail, facsimile, telegraph, electronic mail, wireless, or other form of recorded communication; special meetings shall be called by the Chairman of the Board, the President, or the Secretary in like manner and on like notice on the written request of two directors. Neither the business to be transacted at, nor the purpose of, any special meeting of the Board of Directors need be specified in the notice of such meeting.

3.10 Quorum and Manner of Acting. At all meetings of the Board of Directors, a majority of the directors at the time in office (but not less than one-third of the whole Board of Directors) shall constitute a quorum for the transaction of business, and the act of a majority of the directors present at any meeting at which a quorum is present shall be the act of the Board of Directors, except as may be otherwise specifically provided by statute or by the Certificate of Incorporation. If a quorum shall not be present at any meeting of the Board of Directors, the directors present thereat may adjourn the meeting from time to time, without notice other than announcement at the meeting, until a quorum shall be present.

3.11 Interested Directors. No contract or transaction between the Corporation and one or more of its directors or officers, or between the Corporation and any other corporation, partnership, association, or other organization in which one (1) or more of the Corporation's directors or officers or have a financial interest, shall be void or voidable solely for this reason, or solely because the director or officer is present at or participates in the meeting of the Board of



Directors or committee thereof that authorizes the contract or transaction, or solely because his or their votes are counted for such purpose, if:

(a) The material facts as to his relationship or interest and as to the contract or transaction are disclosed or are known to the Board of Directors or the committee, and the Board of Directors or committee in good faith authorizes the contract or transaction by the affirmative vote of a majority of the disinterested directors, even though the disinterested directors be less than a quorum; or

(b) The material facts as to his relationship or interest and as to the contract or transaction are disclosed or are known to the stockholders entitled to vote thereon, and the contract or transaction is specifically approved in good faith by vote of the stockholders; or

(c) The contract or transaction is fair as to the Corporation as of the time it is authorized, approved, or ratified by the Board of Directors, a committee thereof, or the stockholders.

(d) Interested directors may be counted in determining the presence of a quorum at a meeting of the Board of Directors or of a committee that authorizes the contract or transaction.

3.12 Remuneration. Unless otherwise expressly provided by resolution adopted by the Board of Directors, none of the directors shall, as such, receive any stated remuneration for his services; but the Board of Directors may at any time and from time to time by resolution provide that a specified sum shall be paid to any director of the Corporation, either as his annual remuneration as such director or member of any committee of the Board of Directors or as remuneration for his attendance at each meeting of the Board of Directors or any such committee. The Board of Directors may also likewise provide that the Corporation shall reimburse each director for any expenses paid by him on account of his attendance at any meeting. Nothing in this Section 3.12 shall be construed to preclude any director from serving the Corporation in any other capacity and receiving remuneration therefore.

ARTICLE IV

COMMITTEES

4.1 Executive Committee; How Constituted and Powers. The Board of Directors may in its discretion, by resolution passed by a majority of the whole Board of Directors, designate an Executive Committee consisting of one or more of the directors of the Corporation. Subject to the provisions of Section 141 of the General Corporation Law of the State of Delaware, the Certificate of Incorporation, and these Bylaws, the Executive Committee shall have and may exercise, when the Board of Directors is not in session, all the powers and authority of the Board of Directors in the management of the business and affairs of the Corporation, and shall have the power to authorize the seal of the Corporation to be affixed to all papers which may require it; but the Executive Committee shall not have the power to fill vacancies in the Board of Directors, the Executive Committee, Audit Committee or any other committee of directors or to elect or approve officers of the Corporation. The Executive Committee shall have the power and authority to authorize the issuance of common stock and grant and authorize options and other rights with respect to such issuance. The Board of Directors shall have the power at any time, by resolution



passed by a majority of the whole Board of Directors, to change the membership of the Executive Committee, to fill all vacancies in it, or to dissolve it, either with or without cause.

4.2 Organization. The Chairman of the Executive Committee, to be selected by the Board of Directors, shall act as chairman at all meetings of the Executive Committee and the Secretary shall act as secretary thereof. In case of the absence from any meeting of the Executive Committee of the Chairman of the Executive Committee or the Secretary, the Executive Committee may appoint a chairman or secretary, as the case may be, of the meeting.

4.3 Meetings. Regular meetings of the Executive Committee, of which no notice shall be necessary, may be held on such days and at such places, within or without the State of Delaware, as shall be fixed by resolution adopted by a majority of the Executive Committee and communicated in writing to all its members. Special meetings of the Executive Committee shall be held whenever called by the Chairman of the Executive Committee or a majority of the members of the Executive Committee then in office. Notice of each special meeting of the Executive Committee shall be given by mail, facsimile, telegraph, electronic mail, wireless, or other form of recorded communication or be delivered personally or by telephone to each member of the Executive Committee not later than the day before the day on which such meeting is to be held. Notice of any such meeting need not be given to any member of the Executive Committee, however, if waived by him in writing or by mail, facsimile, telegraph, electronic mail, wireless, or other form of recorded communication, or if he shall be present at such meeting; and any meeting of the Executive Committee shall be a legal meeting without any notice thereof having been given, if all the members of the Executive Committee shall be present thereat. Subject to the provisions of this Article IV, the Executive Committee, by resolution adopted by a majority of the whole Executive Committee, shall fix its own rules of procedure.

4.4 Quorum and Manner of Acting. A majority of the Executive Committee shall constitute a quorum for the transaction of business, and the act of a majority of those present at a meeting thereof at which a quorum is present shall be the act of the Executive Committee.

4.5 Audit Committee. The Board of Directors shall have an Audit Committee that shall consist of such number of directors of the Corporation (none of whom shall be an employee of the Corporation) as may be appointed from time to time by the Board of Directors. The Board of Directors shall adopt a charter setting forth the required qualifications of members of the Audit Committee, as well as the responsibilities of the Audit Committee. A majority of the members of the Audit Committee shall constitute a quorum necessary to transact business.

4.6 Other Committees. The Board of Directors may, by resolution or resolutions passed by a majority of the whole Board of Directors, designate one or more other committees consisting of one or more directors of the Corporation, which, to the extent provided in said resolution or resolutions, shall have and may exercise, subject to the provisions of Section 141 of the General Corporation Law of the State of Delaware, the Certificate of Incorporation, and these Bylaws, the powers and authority of the Board of Directors in the management of the business and affairs of the Corporation, and shall have the power to authorize the seal of the Corporation to be affixed to all papers which may require it; but no such committee shall have the power to fill vacancies in the Board of Directors, the Executive Committee, the Audit Committee or any other committee or in their respective membership, to appoint or remove officers of the Corporation, or to authorize the issuance of shares of the capital stock of the Corporation, except that such a committee may, to the extent provided in said resolutions, grant and authorize options and other rights with respect



to the common stock of the Corporation pursuant to and in accordance with any plan approved by the Board of Directors. Such committee or committees shall have such name or names as may be determined from time to time by resolution adopted by the Board of Directors. A majority of all the members of any such committee may determine its action and fix the time and place of its meetings and specify what notice thereof, if any, shall be given, unless the Board of Directors shall otherwise provide. The Board of Directors shall have power to change the members of any such committee at any time to fill vacancies, and to discharge any such committee, either with or without cause, at any time.

4.7 Alternate Members of Committees. The Board of Directors may designate one or more directors as alternate members of the Executive Committee, Audit Committee or any other committee, who may replace any absent or disqualified member at any meeting of the committee, or if none be so appointed, the member or members thereof present at any meeting and not disqualified from voting, whether or not he or they constitute a quorum, may unanimously appoint another member of the Board of Directors to act at the meeting in the place of any such absent or disqualified member.

4.8 Minutes of Committees. Each committee shall keep regular minutes of its meetings and proceedings and report the same to the Board of Directors at the next meeting thereof.

ARTICLE V

MEETINGS – GENERAL

5.1 Actions Without a Meeting. Unless otherwise restricted by the Certificate of Incorporation or these Bylaws, any action required or permitted to be taken at any meeting of the Board of Directors or of any committee thereof may be taken without a meeting, if all members of the Board of Directors or committee, as the case may be, consent thereto in writing and the writing or writings are filed with the minutes of proceedings of the Board of Directors or the committee.

5.2 Presence at Meetings by Means of Communications Equipment. Members of the Board of Directors, or of any committee designated by the Board of Directors, may participate in a meeting of the Board of Directors or such committee by means of conference telephone or other communications equipment by means of which all persons participating in the meeting can hear each other, and participation in a meeting conducted pursuant to this Section 5.2 shall constitute presence in person at such meeting.

ARTICLE VI

NOTICES

6.1 Type of Notice. Whenever, under the provisions of any applicable statute, the Certificate of Incorporation, or these Bylaws, notice is required to be given to any director or stockholder, it shall not be construed to mean personal notice, but such notice may be given in writing, in person or by mail, addressed to such director or stockholder, at his address as it appears on the records of the Corporation, with postage thereon prepaid, and such notice shall be deemed to be given at the time when the same shall be deposited in the United States mail. Notice to directors may also be given in any manner permitted by Article III hereof and shall be deemed to be given at the time when first transmitted by the method of communication selected.

be given at the time when first transmitted by the method of communication selected.

6.2 Waiver of Notice. Whenever any notice is required to be given under the provisions of any applicable permitted statute, the Certificate of Incorporation, or these Bylaws, a waiver thereof in writing, signed by the person or persons entitled to said notice, whether before or after the time stated therein, or any other method prescribed under the General Corporation Law of the State of Delaware, shall be deemed equivalent thereto, and transmission of a waiver of notice by a director or stockholder by mail, facsimile, telegraph, electronic means, wireless, or other form of recorded communication may constitute such a waiver.

ARTICLE VII

OFFICERS

7.1 Elected and Appointed Officers. The elected officers of the Corporation shall be a President, one or more Vice Presidents, with or without such descriptive titles as the Board of Directors shall deem appropriate, a Secretary, and a Treasurer, and, if the Board of Directors so elects, a Chairman of the Board (who shall be a director), and a Controller. The Board of Directors or the Executive Committee of the Board of Directors by resolution also may appoint one or more Assistant Vice Presidents, Assistant Treasurers, Assistant Secretaries, Assistant Controllers, and such other officers and agents as from time to time may appear to be necessary or advisable in the conduct of the affairs of the Corporation.

7.2 Time of Election or Appointment. The Board of Directors at its annual meeting shall elect or appoint, as the case may be, the officers to fill the positions designated in or pursuant to Section 7.1 of this Article VII. Officers of the Corporation may also be elected or appointed, as the case may be, at any other time.

7.3 Salaries of Elected Officers. The salaries of all elected officers of the Corporation shall be fixed by the Board of Directors or a committee thereof.

7.4 Term. Each officer of the Corporation shall hold his office until his successor is duly elected or appointed and qualified or until his earlier resignation or removal. Any officer may resign at any time upon written notice to the Corporation. Any officer elected or appointed by the Board of Directors or the Executive Committee may be removed at any time by the affirmative vote of a majority of the whole Board of Directors. Any vacancy occurring in any office of the Corporation by death, resignation, removal, or otherwise may be filled by the Board of Directors or the appropriate committee thereof.

7.5 Duties of the Chief Executive Officer. Unless the Board of Directors designates otherwise, the President shall be the chief executive officer of the Corporation. The Chief Executive Officer shall preside at all meetings of the stockholders. The Chief Executive Officer shall have such other powers and duties as usually pertain to such office or as may be delegated by the Board of Directors.

7.6 Duties of President. Unless the Board of Directors shall otherwise delegate such duties, the President shall have general powers of oversight, supervision and management of the business and affairs of the Corporation, and shall see that all orders and resolutions of the Board of Directors are carried into effect. The President shall have such other powers and duties as usually pertain to such office or as may be prescribed by the Board of Directors. He shall execute bonds, mortgages, instruments, contracts, agreements and other documentation, except where the signing and



execution thereof shall be expressly delegated by the Board of Directors to some other officer or agent of the Corporation.

7.7 Duties of Vice Presidents. In the absence of the President or in the event of his inability or refusal to act, the Vice President (or in the event there be more than one Vice President, the Vice Presidents in the order designated, or in the absence of any designation, then in the order of their election) shall perform the duties of the President and, when so acting, shall have all the powers of and be subject to all the restrictions upon the President. The Vice Presidents shall perform such other duties and have such other powers as the Board of Directors or the President may from time to time prescribe.

7.8 Duties of Assistant Vice Presidents. In the absence of a Vice President or in the event of his inability or refusal to act, the Assistant Vice President (or in the event there shall be more than one, the Assistant Vice Presidents in the order designated by the Board of Directors, or in the absence of any designation, then in the order of their appointment) shall perform the duties and exercise the powers of that Vice President, and shall perform such other duties and have such other powers as the Board of Directors, the President, or the Vice President under whose supervision he is appointed may from time to time prescribe.

7.9 Duties of the Secretary. The Secretary shall attend all meetings the Board of Directors and all meetings of the stockholders and record all the proceedings of the meetings of the Corporation and of the Board of Directors in a book to be kept for that purpose and shall perform like duties for the Executive Committee or other standing committees when required or appropriate. He shall give, or cause to be given, notice of all meetings of the stockholders and special meetings of the Board of Directors, and shall perform such other duties as may be prescribed by the Board of Directors or the President, under whose supervision he shall be. He shall have custody of the corporate seal of the Corporation, and he, or an Assistant Secretary, shall have authority to affix the same to any instrument requiring it, and when so affixed, it may be attested by his signature or by the signature of such Assistant Secretary. The Board of Directors may give general authority to any other officer to affix the seal of the Corporation and to attest the affixing by his signature. The Secretary shall keep and account for all books, documents, papers, and records of the Corporation, except those for which some other officer or agent is properly accountable. He shall have authority to sign stock certificates and shall generally perform all the duties usually appertaining to the office of the secretary of a corporation.

7.10 Duties of Assistant Secretaries. In the absence of the Secretary or in the event of his inability or refusal to act, the Assistant Secretary (or, if there shall be more than one, the Assistant Secretaries in the order designated by the Board of Directors, or in the absence of any designation, then in the order of their appointment) shall perform the duties and exercise the powers of the Secretary and shall perform such other duties and have such other powers as the Board of Directors, the President, or the Secretary may from time to time prescribe.

7.11 Duties of the Treasurer. The Treasurer shall have the custody of the corporate funds and securities and shall keep full and accurate accounts of receipts and disbursements in books belonging to the Corporation and shall deposit all moneys and other valuable effects in the name and to the credit of the Corporation in such depositories as may be designated by the Board of Directors. He shall disburse the funds of the Corporation as may be ordered by the Board of Directors, taking proper vouchers for such disbursements, and shall render to the President and the Board of Directors, at its regular meetings or when the Board of Directors so requires, an account



of all his transactions as Treasurer and of the financial condition of the Corporation. If required by the Board of Directors, he shall give the Corporation a bond (which shall be renewed every six years) in such sum and with such surety or sureties as shall be satisfactory to the Board of Directors for the faithful performance of the duties of his office and for the restoration to the Corporation, in case of his death, resignation, retirement, or removal from office, of all books, papers, vouchers, money, and other property of whatever kind in his possession or under his control belonging to the Corporation. The Treasurer shall be under the supervision of the Vice President in charge of finance, if one is so designated, and he shall perform such other duties as may be prescribed by the Board of Directors, the President, or any such Vice President in charge of finance.

7.12 Duties of Assistant Treasurers. The Assistant Treasurer or Assistant Treasurers shall assist the Treasurer, and in the absence of the Treasurer or in the event of his inability or refusal to act, the Assistant Treasurer (or in the event there shall be more than one, the Assistant Treasurers in the order designated by the Board of Directors, or in the absence of any designation, then in the order of their appointment) shall perform the duties and exercise the powers of the Treasurer and shall perform such other duties and have such other powers as the Board of Directors, the President, or the Treasurer may from time to time prescribe.

7.13 Duties of the Controller. The Controller, if one is appointed, shall have supervision of the accounting practices of the Corporation and shall prescribe the duties and powers of any other accounting personnel of the Corporation. He shall cause to be maintained an adequate system of financial control through a program of budgets and interpretive reports. He shall initiate and enforce measures and procedures whereby the business of the Corporation shall be conducted with the maximum efficiency and economy. If required, he shall prepare a monthly report covering the operating results of the Corporation. The Controller shall be under the supervision of the Vice President in charge of finance, if one is so designated, and he shall perform such other duties as may be prescribed by the Board of Directors, the President, or any such Vice President in charge of finance.

7.14 Duties of Assistant Controllers. The Assistant Controller or Assistant Controllers shall assist the Controller, and in the absence of the Controller or in the event of his inability or refusal to act, the Assistant Controller (or, if there shall be more than one, the Assistant Controllers in the order designated by the Board of Directors, or in the absence of any designation, then in the order of their appointment) shall perform the duties and exercise the powers of the Controller and perform such other duties and have such other powers as the Board of Directors, the President, or the Controller may from time to time prescribe.

ARTICLE VIII

INDEMNIFICATION

8.1 Actions Other than by or in the Right of the Corporation. The Corporation shall to the fullest extent permitted by the laws of the State of Delaware indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative (other than an action by or in the right of the Corporation) by reason of the fact that he or she is or was a director or officer of the Corporation, or is or was serving at the request of the Corporation as a director or officer of another corporation, partnership, joint venture, trust or other enterprise, and may indemnify any



person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative (other than an action by or in the right of the Corporation) by reason of the fact that he or she is or was a Corporate Functionary, against all costs, charges, expenses (including attorneys' fees), liabilities and losses, judgments, fines, amounts paid in settlement and excise taxes reasonably incurred or suffered by him or her or on his or her behalf in connection with such action, suit or proceeding and any appeal therefrom, if he or she acted in good faith and in a manner he or she reasonably believed to be in or not opposed to the best interests of the Corporation, and, with respect to any criminal action or proceeding, had no reasonable cause to believe his or her conduct was unlawful. The termination of any action, suit or proceeding by judgment, order, settlement, conviction, or upon a plea of nolo contendere or its equivalent, shall not, of itself, create a presumption that the person did not act in good faith and in a manner which he or she reasonably believed to be in or not opposed to the best interests of the Corporation, and, with respect to any criminal action or proceeding, that the person had reasonable cause to believe that his or her conduct was unlawful.

8.2 Actions by or in the Right of the Corporation. The Corporation shall to the fullest extent permitted by the laws of the State of Delaware indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending, or completed action, suit, or proceeding by or in the right of the Corporation to procure a judgment in its favor by reason of the fact that he is or was a director or officer of the Corporation, or is or was serving at the request of the Corporation as a director or officer of another corporation, partnership, joint venture, trust or other enterprise, and may indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding by or in the right of the Corporation to procure a judgment in its favor by reason of the fact that he or she is or was a Corporate Functionary, against expenses (including, without limitation, attorneys' fees) actually and reasonably incurred by him in connection with the defense or settlement of such action, suit, or proceeding if he acted in good faith and in a manner he reasonably believed to be in or not opposed to the best interests of the Corporation, except that no indemnification shall be made in respect of any claim, issue, or matter as to which such person shall have been adjudged to be liable to the Corporation, unless and to the extent that the Court of Chancery or the Court in which such action, suit, or proceeding has been brought, shall determine upon application that, despite the adjudication of liability but in view of all the circumstances of the case, such person is fairly and reasonably entitled to indemnity for such expenses which the Court of Chancery or such other court shall deem proper.

8.3 Determination of Right to Indemnification. Any indemnification under Section 8.1 or Section 8.2 of this Article VIII (unless ordered by a court) shall be made by the Corporation only as authorized in the specific case upon a determination that indemnification of the director or officer or of the Corporate Functionary is proper in the circumstances because such person has met the applicable standard of conduct set forth in Section 8.1 or Section 8.2 of this Article VIII. Such determination shall be made (i) by the Board of Directors by a majority vote of a quorum consisting of directors who were not parties to such action, suit, or proceeding, or (ii) if such a quorum is not obtainable, or even if obtainable if a quorum of disinterested directors so directs, by independent legal counsel in a written opinion, or (iii) by the stockholders.

8.4 Right to Indemnification. Notwithstanding the other provisions of this Article VIII, to the extent that a present or former director or officer, or a Corporate Functionary, has been successful on the merits or otherwise in defense of any action, suit, or proceeding referred to in



Section 8.1 or Section 8.2 of this Article VIII (including, without limitation, the dismissal of an action, suit, or proceeding without prejudice or the settlement of an action, suit, or proceeding without admission of liability), or in defense of any claim, issue, or matter therein, the Corporation shall indemnify him against expenses (including, without limitation, attorneys' fees) actually and reasonably incurred by him in connection therewith.

8.5 Prepaid Expenses. Expenses incurred by a present or former director or officer of the Corporation in defending a civil or criminal action, suit, or proceeding shall be paid by the Corporation upon receipt of an undertaking by or on behalf of such person to repay such amount if it shall ultimately be determined he is not entitled to be indemnified by the Corporation as authorized in this Article VIII. Expenses incurred by a Corporate Functionary in defending a civil or criminal action, suit or proceeding may be paid by the Corporation in advance of the final disposition of such action, suit, or proceeding, upon (i) receipt of an undertaking by or on behalf of such person to repay such amount if it shall ultimately be determined he is not entitled to be indemnified by the Corporation as authorized in this Article VIII and (ii) such other terms and conditions, if any, as the Board of Directors deems appropriate.

8.6 Indemnification Upon Application: Procedure upon Application.

(a) Any indemnification of a director or officer of the Corporation under Sections 8.1, 8.2 and 8.4, or any advance to a director or officer of the Corporation under Section 8.5, of this Article VIII shall be made promptly upon, and in any event within 60 days after, the written request of the director or officer. The right to indemnification or an advance of expenses granted by this Article VIII shall be enforceable by the director or officer of the Corporation in any Court of competent jurisdiction if his claim is not paid in full within 60 days. The expenses of the director or officer incurred in connection with successfully establishing his right to indemnification or an advance of expenses, in whole or in part, in any such proceeding shall also be indemnified by the Corporation.

(b) Within 60 days after receipt of a written application by any Corporate Functionary for indemnification in his capacity as such under any of Sections 8.1, 8.2, and 8.4, or any advance under Section 8.5, of this Article VIII (i) a determination as to whether indemnification shall be made under Section 8.3 of this Article VIII, or (ii) if the request is for an advance of expenses, the Board of Directors, by majority vote of a quorum consisting of disinterested directors, shall determine whether such advance shall be made. In the case described in clause (ii) of the preceding sentence, if no quorum of disinterested directors is obtainable, the Board of Directors shall promptly direct independent legal counsel to decide whether the requested indemnification or advance shall be made. The expenses of the Corporate Functionary incurred in connection with successfully requesting indemnification or advancement of expenses in any such proceeding shall be reimbursed by the Corporation, but no such expenses in connection with an unsuccessful or only partially successful request shall be reimbursed.

(c) In any suit brought by the director, officer or Corporate Functionary to enforce a right to indemnification under this Article VIII (but not in a suit brought to enforce a right to an advance of expenses), it shall be a defense that the director, officer or Corporate Functionary has not met the applicable standard of conduct for indemnification under Section 8.1 or Section 8.2 of this Article VIII. In any suit by the Corporation to recover expenses advanced to the director, officer or Corporate Functionary pursuant to the terms of an undertaking, the Corporation shall be entitled to recover those expenses upon a final adjudication that the director, officer or Corporate



Functionary has not met the applicable standard of conduct for indemnification under Section 8.1 or Section 8.2 of this Article VIII. In any suit by the director, officer or Corporate Functionary to enforce a right to indemnification or to an advance of expenses under this Article VIII, or by the Corporation to recover expenses advanced pursuant to the terms of an undertaking, the burden of proof shall be on the Corporation.

8.7 Other Rights and Remedies. The indemnification and advancement of expenses provided by or granted pursuant to this Article VIII shall not be deemed exclusive of any other rights to which any person seeking indemnification and advancement of expenses or may be entitled under any bylaw, agreement, vote of stockholders or disinterested directors, or otherwise, both as to action in his official capacity and as to action in another capacity while holding such office, and shall, unless otherwise provided when authorized or ratified, continue as to a person who has ceased to be a director or officer of the Corporation or a Corporate Functionary and shall inure to the benefit of the heirs, executors, and administrators of such a person. Any repeal or modification of these Bylaws or relevant provisions of the Delaware General Corporation Law and other applicable law, if any, shall not affect any then existing rights of a director or officer of the Corporation or a Corporate Functionary to indemnification or advancement of expenses.

8.8 Insurance. Upon resolution passed by the Board of Directors, the Corporation may purchase and maintain insurance on behalf of any person who is or was a director, officer, employee, or agent of the Corporation, or is or was serving at the request of the Corporation as a director, officer, employee, or agent of another corporation, partnership, joint venture, trust, or other enterprise against any liability asserted against him and incurred by him in any such capacity, or arising out of his status as such, whether or not the Corporation would have the power to indemnify him against such liability under the provisions of this Article VIII.

8.9 Savings Provision. If this Article VIII or any portion hereof shall be invalidated on any ground by a court of competent jurisdiction, the Corporation shall nevertheless indemnify each director or officer of the Corporation, and may indemnify each Corporate Functionary, as to expense (including attorneys' fees), judgments, fines, and amounts paid in settlement with respect to any action, suit, proceeding, or investigation, whether civil, criminal, or administrative, including a grand jury proceeding or action or suit brought by or in the right of the Corporation, to the full extent permitted by any applicable portion of this Article VIII that shall not have been invalidated.

8.10 Definitions. For purposes of this Article VIII, "Corporate Functionary" means any such person who is or was an employee or agent of the Corporation, or is or was serving at the request of the Corporation as an employee or agent of another corporation, partnership, joint venture, trust or other enterprise.

ARTICLE IX

CERTIFICATES REPRESENTING STOCK

9.1 Right to Certificate. Every holder of stock in the Corporation shall be entitled to have a certificate, signed by, or in the name of the Corporation by, the Chief Executive Officer, the President, or a Vice President and by the Secretary or an Assistant Secretary of the Corporation,



certifying the number of shares owned by him in the Corporation. If the Corporation shall be authorized to issue more than one class of stock or more than one series of any class, the powers, designations, preferences, and relative, participating, optional, or other special rights of each class of stock or series thereof and the qualifications, limitations, or restrictions of such preferences or rights shall be set forth in full or summarized on the face or back of the certificate which the Corporation shall issue to that, except as represent such class or series of Stock; provided, that, except as otherwise provided in the General Corporation Law of the State of Delaware, in lieu of the foregoing requirements, there may be set forth on the face or back of the certificate which the Corporation shall issue to represent such class or series of stock a statement that the Corporation will furnish without charge to each stockholder who so requests the powers, designations, preferences, and relative, participating, optional, or other special rights of each class of stock or series thereof and the qualifications, limitations, or restrictions of such preferences or rights.

9.2 Facsimile Signatures. Any of or all the signatures on the certificate may be facsimile. In case any officer, transfer agent, or registrar who has signed or whose facsimile signature has been placed upon a certificate shall have ceased to be such officer, transfer agent, or registrar before such certificate is issued, it may be issued by the Corporation with the same effect as if he were such officer, transfer agent, or registrar at the date of issue.

9.3 New Certificates. The Board of Directors may direct a new certificate or certificates to be issued in place of any certificate or certificates theretofore issued by the Corporation and alleged to have been lost, stolen, or destroyed, upon the making of an affidavit of that fact by the person claiming the certificate of stock to be lost, stolen, or destroyed. When authorizing such issue of a new certificate or certificates, the Board of Directors may, in its discretion and as a condition precedent to the issuance thereof, require the owner of such lost, stolen, or destroyed certificate or certificates, or his legal representative, to advertise the same in such manner as it shall require or to give the Corporation a bond in such sum as it may direct as indemnity against any claim that may be made against the Corporation with respect to the certificate alleged to have been lost, stolen, or destroyed or the issuance of such new certificate.

9.4 Transfers. Upon surrender to the Corporation or the transfer agent of the Corporation of a certificate for shares duly endorsed or accompanied by proper evidence of succession, assignation, or authority to transfer, it shall be the duty of the Corporation, subject to any proper restrictions on transfer, to issue a new certificate to the person entitled thereto, cancel the old certificate, and record the transaction upon its books.

9.5 Transfer Agents and Registrars. The Board of Directors may appoint, or authorize any officer or officers to appoint, one or more transfer agents and one or more registrars.

9.6 Record Date. The Board of Directors may fix in advance a date, not preceding the date on which the resolution fixing the record date is adopted, and

- (i) not more than 60 days nor less than 10 days preceding the date of any meeting of stockholders, as a record date for the determination of the stockholders entitled to notice of, and to vote at, any such meeting and any adjournment thereof, or
- (ii) not more than 60 days before the date for payment of any dividend or distribution, or the date for the allotment of rights, or the date when any change, or conversion or exchange of capital stock shall go into effect, or

the date on which any other lawful action shall be taken, as the record date for determining the stockholders entitled to receive payment of any such dividend or distribution, or to receive any such allotment of rights, or to exercise the rights in respect of any such change, conversion or exchange of capital stock or other lawful action of the Corporation,

and in such case such stockholders and only such stockholders as shall be stockholders of record on the date so fixed shall be entitled to such notice of, and to vote at, any such meeting and any adjournment thereof (provided, however, that the Board of Directors may fix a new record date for an adjourned meeting), or to receive payment of such dividend or distribution, or to receive such allotment of rights, or to exercise such rights, as the case may be, notwithstanding any transfer of any stock on the books of the Corporation after any such record date fixed as aforesaid.

9.7 Registered Stockholders. The Corporation shall be entitled to recognize the exclusive right of a person registered on its books as the owner of shares to receive dividends, and to vote as such owner, and to hold liable for calls and assessments a person registered on its books as the owner of shares, and shall not be bound to recognize any equitable or other claim to or interest in such share or shares on the part of any other person, whether or not provided by the laws of the State of Delaware.

9.8 Voting Agreements. A written counterpart of any voting agreement entered into among any number of stockholders of the Corporation, or any number of stockholders of the Corporation and the Corporation itself, for the purpose of providing that shares of the Corporation shall be voted in the manner prescribed in the agreement shall be deposited with the Corporation at its registered office in Delaware and shall be subject to the inspection by any stockholder of the Corporation or any beneficiary of the agreement daily during business hours. In addition, certificates of stock or uncertificated stock shall be issued to the person or persons, or corporation or corporations authorized to act as trustee for purposes of vesting in such person or persons, corporation or corporations, the right to vote such shares, to represent any stock of an original issue so deposited with him or them, and any certificates of stock or uncertificated stock so transferred to the voting trustee or trustees shall be surrendered and cancelled and new certificates or uncertificated stock shall be issued therefore to the voting trustee or trustees. In the certificate so issued, if any, it shall be stated that it is issued pursuant to such agreement, and that fact shall also be stated in the stock ledger of the Corporation.

ARTICLE X

GENERAL PROVISIONS

10.1 Dividends. Dividends upon the capital stock of the Corporation, if any, subject to the provisions of the Certificate of Incorporation, may be declared by the Board of Directors (but not any committee thereof) at any regular meeting, pursuant to law. Dividends may be paid in cash, in property, or in shares of the capital stock, subject to the provisions of the Certificate of Incorporation.

10.2 Reserves. Before payment of any dividend, there may be set aside out of any funds of the Corporation available for dividends such sum or sums as the Board of Directors from time to time, in their absolute discretion, thinks proper as a reserve or reserves to meet contingencies,



or for equalizing dividends, or for repairing or maintaining any property of the Corporation, or for such other purpose as the Board of Directors shall think conducive to the interest of the Corporation, and the Board of Directors may modify or abolish any such reserve in the manner in which it was created.

10.3 Annual Statement. The Board of Directors shall present at each annual meeting, and at any special meeting of the stockholders when called for by vote of the stockholders, a full and clear statement of the business and condition of the Corporation.

10.4 Checks. All checks or demands for money and promissory notes of the Corporation shall be signed by such officer or officers or such other person or persons as the Board of Directors may from time to time prescribe.

10.5 Fiscal Year. The fiscal year of the Corporation shall be determined by the Board of Directors.

10.6 Corporate Seal. The corporate seal shall have inscribed thereon the name of the Corporation, the year of its organization, and the word "Delaware." The seal may be used by causing it or a facsimile thereof to be impressed, affixed, reproduced, or otherwise.

10.7 Forum. Unless the Corporation consents in writing to the selection of an alternative forum, the Court of Chancery of the State of Delaware (or, if the Court of Chancery does not have jurisdiction, the federal district court for the District of Delaware) shall be the sole and exclusive forum for (i) any derivative action or proceeding brought on behalf of the Corporation, (ii) any action asserting a claim for breach of a fiduciary duty owed by any director, officer, employee or agent of the Corporation to the Corporation or the Corporation's stockholders, (iii) any action asserting a claim arising pursuant to any provision of the General Corporation Law of the State of Delaware, the Certificate of Incorporation or the Bylaws of the Corporation or (iv) any action asserting a claim governed by the internal affairs doctrine, in each case subject to said court having personal jurisdiction over the indispensable parties named as defendants therein.

ARTICLE XI

RESTRICTIONS ON TRANSFER OF STOCK

Shares of capital stock of the Corporation that have been issued by the Corporation without registration under the Securities Act of 1933, as amended from time to time, and any other applicable securities laws shall not be offered for sale, sold, assigned, transferred, or pledged by the holder thereof unless they have been duly registered under the applicable securities laws or unless the Corporation shall have received advice of counsel to the Corporation or an opinion of other counsel satisfactory to the Corporation to the effect that the proposed transfer would not be in violation of said laws, and (in addition to the legends set forth in this Article XI) a restrictive legend substantially in the form of that set forth below may be placed conspicuously on the certificate for any such shares:

"The shares represented by this certificate have not been registered under the Securities Act of 1933 (the "Act") or under any other applicable securities laws. The shares may not be offered for sale, sold, assigned, transferred or pledged without registration under the Act and any other applicable securities laws or



without an opinion of counsel satisfactory to the Corporation that registration is not required.”

ARTICLE XII

AMENDMENTS

These Bylaws may be altered, amended, or repealed or new Bylaws may be adopted by the Board of Directors at any regular or special meeting of the Board, subject to the stockholders' right to adopt, amend or repeal these Bylaws or adopt new Bylaws. Notwithstanding the foregoing and anything contained in the Bylaws to the contrary, the Bylaws shall not be amended or repealed by the stockholders, and no provision inconsistent therewith shall be adopted by the stockholders, without the affirmative vote of the holders of at least two-thirds (2/3) of the voting power of all shares of the Corporation entitled to vote generally in the election of directors voting together as a single class.



CERTIFICATION

I, Timothy S. Davidson, Chief Financial Officer, Senior Vice President and Corporate Secretary of the Corporation, hereby certify that the foregoing is a true, accurate and complete copy of the Second Amended and Restated Bylaws of Natural Health Trends Corp. adopted by its Board of Directors effective as of February 6, 2020.

/s/ Timothy S. Davidson
Timothy S. Davidson, Chief Financial Officer,
Senior Vice President and Corporate Secretary



DESCRIPTION OF SECURITIES

References to the “Company” herein are only to Natural Health Trends Corp. and not to any of its subsidiaries.

Description of Capital Stock***General***

The following is a summary of information concerning the capital stock of the Company. The summary below does not purport to be a complete statement of the relevant provisions of the Company’s Certificate of Incorporation, dated March 21, 2005 (as amended, the “**Charter**”), and Amended and Restated Bylaws, dated March 27, 2018 (as amended, the “**Bylaws**”), and is entirely qualified by these documents.

Common Stock

Authorized Capital Stock. The Company is authorized to issue up to 50 million shares of common stock, par value \$0.001 per share (the “**Common Stock**”), and 5 million shares of preferred stock, par value \$0.001 per share (the “**Preferred Stock**”). The Common Stock is registered under Section 12 of the Securities Exchange Act of 1934 and listed on the Nasdaq Capital Market under the ticker symbol “NHTC.” The Company does not currently have any shares of Preferred Stock outstanding.

Dividends. Subject to prior dividend rights of the holders of any shares of Preferred Stock, holders of shares of Common Stock are entitled to receive dividends when, as and if declared by the Company’s Board of Directors (the “**Board**”) out of funds legally available for that purpose. Delaware law allows a corporation to pay dividends only out of surplus, as determined under Delaware law.

Voting Rights. The holders of Common Stock are entitled to one vote for each share of such stock held of record by them. At stockholder meetings, most matters are decided by the vote of a majority of the votes cast by the stockholders present in person or represented by proxy and entitled to vote thereat, a quorum being present. Directors are elected by a plurality of the votes of the shares present in person or represented by proxy and entitled to vote on the election of directors at stockholder meetings. Cumulative voting in the election of directors is not permitted.

Other Rights. In the event of any liquidation, dissolution or winding up of the Company, after the satisfaction in full of the payment or provision for liabilities and liquidation preferences of holders of any shares of Preferred Stock, holders of shares of Common Stock are entitled to share ratably in the remaining assets available for distribution to stockholders. The shares of Common Stock are not subject to redemption by operation of a sinking fund or otherwise. Holders of shares of Common Stock are not currently entitled to preemptive rights.

Fully Paid. The issued and outstanding shares of Common Stock are fully paid and non-assessable. This means the full purchase price for the outstanding shares of Common Stock has been paid and the holders of such shares will not be assessed any additional amounts for such shares.

Anti-takeover Effects of the Company’s Charter and Bylaws

Some provisions of the Charter and Bylaws could have the effect of delaying, deferring or preventing a change in control of the Company. These provisions, summarized below, are expected to discourage coercive takeover practices and inadequate takeover bids. These provisions are also designed to encourage persons seeking to acquire control of the Company to first negotiate with the Board. The Company believes that the benefits of increased protection give it the potential ability to negotiate with the proponent of an unfriendly or unsolicited proposal to acquire or restructure the Company and outweigh the disadvantages of discouraging those proposals because negotiation of them could result in an improvement of their terms.

Size of Board and Vacancies

The Bylaws provide that the number of directors which shall constitute the Board shall not be less than 3 nor more than 11 and, within these limits, the number of directors constituting the Board shall be determined by the Board or by the stockholders. Any director may be removed in accordance with the terms of the Charter and the Bylaws, and as provided by applicable law. Newly-created directorships resulting from any increase in the authorized number of directors or vacancies in the Board may be filled by a majority of the directors then in office, or by the sole remaining director.

Elimination of Stockholder Action by Written Consent

The Charter and Bylaws eliminate the right of the Company's stockholders to act by written consent without a meeting. Stockholder action must take place at the annual or a special meeting of the Company's stockholders.

Special Meetings of the Stockholders

Under the Charter and Bylaws, unless otherwise required by law, only the Company's Chairman of the Board, Chief Executive Officer, or a majority of the members of the Board may call special meetings of the Company's stockholders.

Requirements for Advance Notification of Stockholder Proposals and Nominations

The Bylaws establish advance notice procedures with respect to stockholder proposals and nomination of candidates for election as directors, other than proposals and nominations made by or at the direction of the Board or a committee of the Board.

Amendment of Charter and Bylaws

Although the Board is permitted to amend the Bylaws at any time, the Company's stockholders may only amend the Bylaws with the affirmative vote of the holders of at least two-thirds (2/3) of the voting power of all shares of the Company entitled to vote generally in the election of directors. In addition to any affirmative vote required by applicable law or specified in any agreement, the affirmative vote of at least two-thirds (2/3) of the voting power of all shares of the Company entitled to vote generally in the election of directors is required to amend, add, alter, change, repeal or adopt any provisions inconsistent with certain specified sections of the Charter.

Undesignated Preferred Stock

The authorization of the Company's undesignated Preferred Stock makes it possible for the Board to issue preferred stock with voting or other rights or preferences that could impede the success of any attempt to change control of the Company.

NATURAL HEALTH TRENDS CORP. 2016 EQUITY INCENTIVE PLAN
Restricted Stock Award Agreement

(Exempt Award to “U.S. Person” Under Regulation D)

This Restricted Stock Agreement (this “*Agreement*”) is made as of _____, 2016 (the “*Date of Grant*”), between Natural Health Trends Corp., a Delaware corporation (the “*Company*”); the Company or its Affiliate by whom the Awardee is employed or otherwise retained to provide services (the “*Service Recipient*”); and _____ (the “*Awardee*”). Capitalized terms used but not defined in this Agreement shall have the meanings attributed to such terms under the Plan, unless the context otherwise requires.

1. Award. Pursuant to the Natural Health Trends Corp. 2016 Equity Incentive Plan (the “*Plan*”), and subject to the terms and conditions of this Agreement, the Service Recipient hereby awards to the Awardee, as of the Date of Grant, _____ shares (the “*Restricted Shares*”) of the Company’s Common Stock, which shall be issued as hereinafter provided in the Awardee’s name, subject to certain restrictions thereon. The Awardee acknowledges receipt of a copy of the Plan and agrees that this award of Restricted Shares shall be subject to all of the terms and provisions of the Plan. The Fair Market Value of each Share on the Date of Grant is \$_____.
 2. Restricted Shares. The Awardee hereby accepts the Restricted Shares when issued and agrees with respect thereto as follows:
 - (a) *Forfeiture Restrictions*. If the Awardee experiences a Termination of Service prior to the lapse of the forfeiture restrictions under Sections 2(c) and 2(d), any portion of the Restricted Shares that remain unvested shall be immediately and irrevocably forfeited in full.
 - (b) *Transfer Restrictions*. Restricted Shares may not be sold, assigned, pledged, exchanged, hypothecated or otherwise transferred, encumbered or disposed of to the extent then subject to the forfeiture restrictions as provided in Section 2(a), except with the prior written consent of the Company in accordance with procedures established and maintained by the Company. In all cases Shares must be sold in compliance with Applicable Law. The forfeiture, transfer, and other restrictions herein shall be fully binding upon and enforceable against any transferee of Restricted Shares.
 - (c) *Lapse of Forfeiture Restrictions*. Provided the Awardee does not experience a Termination of Service, the Restricted Shares (rounded up to the next whole Share) vest with respect to one-twelfth (1/12) of the Restricted Shares on the 15th day of last calendar month of each calendar quarter (e.g., March 15th, June 15th, September 15th, or December 15th) ending after the Date of Grant. Should the Awardee die or become Disabled while holding Restricted Shares, then the Shares shall become 100% vested upon his or her death or Disability.
 - (d) *Change in Control*. In the event of a Change in Control prior to the lapse of the forfeiture restrictions, the Restricted Shares shall thereafter fully vest.
 3. Additional Restrictions.
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(a) *Applicable Law.* With regard to any Restricted Shares with respect to which the forfeiture restrictions have lapsed, such Shares shall continue to be subject to the restrictions on transfer imposed under Applicable Law.

(b) *Certificates.* Any stock certificate(s) representing the Restricted Shares granted hereunder shall be stamped or otherwise imprinted with a legend with respect to any applicable restrictions contained herein and otherwise with respect to the sale or transfer of such Shares, and the stock transfer records of the Company will reflect stop transfer instructions with respect to such shares. At the election of the Company, any stock certificates evidencing Restricted Shares shall be held by the Company for the benefit of the Awardee until such time as the transfer of such shares is no longer subject to the forfeiture restrictions. Upon any lapse of the forfeiture restrictions without forfeiture, the Company shall (i) cause a new certificate representing the Restricted Shares with respect to which the forfeiture restrictions have lapsed to be issued without a legend (except for any legend required pursuant to Applicable Law), in the name of the Awardee and shall deliver such certificate to the Awardee, and (ii) cancel any certificates evidencing the Restricted Shares.

(c) *Corporate Acts.* The existence of the Restricted Shares shall not affect in any way the right or power of the Board or the stockholders of the Company to make or authorize any adjustment, recapitalization, reorganization or other change in the Company's capital structure or its business, any merger or consolidation of the Company, any issue of debt or equity securities, the dissolution or liquidation of the Company or any sale, lease, exchange or other disposition of all or any part of its assets or business or any other corporate act or proceeding. The prohibitions of Section 2 hereof shall not apply to the transfer of Restricted Shares pursuant to a plan of reorganization of the Company, but the stock, securities or other property received in exchange therefor shall also become subject to the forfeiture restrictions and provisions governing the lapsing and such forfeiture restrictions applicable to the original Restricted Shares for all purposes of this Agreement, and the certificates representing such stock, securities or other property shall be legended to show such restrictions.

(d) *Death of Awardee.* In the event of the Awardee's death, the identity of the owner of the Shares earned under this Agreement shall be determined in accordance with the terms of the Awardee's will, or, if no valid will exists at the time of the Awardee's death, the terms of the applicable laws of descent and distribution.

4. Withholding of Tax. To the extent that the receipt of the Restricted Shares or the lapse of any forfeiture restrictions results in compensation income or wages to the Awardee for federal, state, local, or foreign tax purposes, the Awardee shall deliver to the Company at the time of such receipt or lapse, as the case may be, such amount of money or, if permitted by the Board in its sole discretion, Shares as the Company may require to meet its minimum obligation under applicable tax laws or regulations. If the Awardee fails to do so, the Company is authorized to withhold from any cash or stock remuneration (including withholding any Restricted Shares distributable to the Awardee under this Agreement) then or thereafter payable to the Awardee any tax required to be withheld by reason of such resulting compensation income or wages. If determined appropriate by the Administrator in its sole discretion, the Service Recipient may pay to the Awardee an additional amount (the "**Gross-Up Payment**") such that the net amount retained by the Awardee, after deduction of any federal, state, or local income tax and employment tax upon the Gross-Up Payment, shall be equal to the value of the Shares for which the forfeiture restrictions lapsed, but for the application of Section 83 of the Code. For purposes of determining the amount of the Gross-Up Payment, the Awardee shall be deemed to pay federal income taxes at the highest marginal rate of federal income taxation in the
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calendar year in which the Gross-Up Payment is to be made and state and local income taxes at the highest marginal rate of taxation in the state and locality of the Awardee's principal place of residence, net of the maximum reduction in federal income taxes that could be obtained from deduction of such state and local taxes.

5. Status of Restricted Shares.

(a) The Awardee acknowledges that the Company has provided the Awardee with the opportunity to evaluate the merits and risks associated with ownership of the Restricted Shares and has had an opportunity to make such further inquiries regarding the Company and the Restricted Shares as the Awardee has deemed appropriate. The Awardee acknowledges that he has been advised to consult his own legal counsel, business advisor, and tax advisor as to legal, business, and tax matters relating to the award and ownership of the Restricted Shares pursuant to this Agreement. The Awardee is able to bear the economic risk of an investment in the Restricted Shares for an indefinite period of time and has such knowledge and experience in financial or business matters that the Awardee is capable of evaluating the merits and risks of such investment.

(b) The Awardee hereby agrees that (i) the certificates representing the Restricted Shares may bear such legend or legends as the Board deems appropriate in order to reflect the forfeiture restrictions and to assure compliance with the terms and provisions of this Agreement and Applicable Law, (ii) the Company may refuse to register the transfer of the Restricted Shares on the stock transfer records of the Company if such proposed transfer would in the opinion of counsel satisfactory to the Company constitute a violation of the terms and provisions of the forfeiture restrictions or any Applicable Law, and (iii) the Company may give related instructions to its transfer agent, if any, to stop registration of the transfer of the Restricted Shares.

(c) The Awardee acknowledges that (i) the Restricted Shares have not been registered under the U.S. Securities Act of 1933, as amended (the "Securities Act"), or under any other securities laws, and therefore cannot be resold unless they are registered under the Securities Act or unless an exemption from registration is available, (ii) the Awardee is acquiring the Restricted Shares for himself or herself and for no other persons, (iii) the Awardee has such knowledge and experience in financial and business matters that he or she is capable of evaluating the merits and risks of an investment in the Restricted Shares.

6. No Effect on Employment or Service Provider Relationship. Nothing in the Plan or this Agreement shall affect in any way the right of the Awardee or the Service Recipient to affect a Termination of Service at any time. If the Awardee is an Employee, unless otherwise provided in a written employment agreement or by Applicable Law, the Awardee's employment by the Service Recipient shall be on an at-will basis, and the employment relationship may be terminated at any time by either the Awardee or the Service Recipient for any reason whatsoever, with or without cause or notice. Any question as to whether and when there has been a Termination of Service shall be determined by the Administrator.

7. Notices. Any notices or other communications provided for in this Agreement shall be sufficient if in writing. In the case of the Awardee, such notices or communications shall be effectively delivered if hand delivered to the Awardee at the Awardee's principal place of employment, if sent by registered or certified mail to the Awardee at the last address the Awardee has filed with the Company or Service Recipient, or delivered by electronic means, including electronic mail, in a manner that is determined by the Company to reasonably result in the Awardee's receipt. In the case of the Company or Service

Recipient, such notices or communications shall be effectively delivered if sent by registered or certified mail to the Company or Service Recipient at its principal executive offices, or delivered by electronic means in a manner that is determined appropriate by the Company or Service Recipient.

8. Binding Effect; Survival. This Agreement shall be binding upon and inure to the benefit of any successors to the Company and Service Recipient and all persons lawfully claiming under the Awardee. The provisions of Section 5 shall survive the lapse of the forfeiture restrictions without forfeiture. To the extent required by context, all references in this Agreement to “Company” shall be inclusive of all Affiliates.
9. Entire Agreement; Integration; Amendment. This Agreement, the Plan, and any applicable equity rights or stockholder agreements between the Company and the Awardee represent the entire agreement between the parties with respect to the receipt of the Restricted Shares by the Awardee and contain all the covenants, promises, representations, warranties, and agreements between the parties with respect to the Restricted Shares granted hereunder. Without limiting the scope of the preceding sentence, all prior understandings and agreements, if any, among the parties hereto relating to the subject matter hereof are hereby null and void and of no further force and effect. Any modification of this Agreement shall be effective only if it is in writing and signed by both the Awardee and an authorized Officer of the Company. In the event of a direct conflict between the provisions of the Plan and the provisions of this Agreement, the provisions of this Agreement shall prevail.
10. Governing Law. This Agreement shall be governed by, and construed in accordance with, the laws of the State of Delaware, without regard to conflicts of law principles thereof.
11. Tax Consequences. The Awardee has reviewed with his own tax advisors the federal, state, local, and foreign tax consequences of this investment and the transactions contemplated by this Agreement. The Awardee is relying solely on such advisors and not on any statements or representations of the Company, Service Recipient, or any of their agents. The Awardee understands that he or she (and not the Company or Service Recipient) shall be responsible for any tax liability that may arise as a result of the transactions contemplated by this Agreement. The Awardee understands that Section 83 of the Code taxes, as ordinary income, the difference between the purchase price for the Restricted Shares, if any, and the Fair Market Value of the Restricted Shares as of the date on which any forfeiture restrictions on the Shares lapse. The Awardee understands that he or she may elect to be taxed as of the Date of Grant, rather than when and as the forfeiture restrictions lapse, by filing an election under Section 83(b) of the Code with the Internal Revenue Service within thirty (30) days from the Date of Grant. THE AWARDEE (AND NOT THE COMPANY, SERVICE RECIPIENT, OR ANY OF THEIR AGENTS) SHALL BE SOLELY RESPONSIBLE FOR APPROPRIATELY FILING SUCH AN ELECTION, EVEN IF THE AWARDEE REQUESTS THE COMPANY, SERVICE RECIPIENT, OR THEIR AGENTS TO MAKE THIS FILING ON HIS OR HER BEHALF. Any Awardee residing outside the United States of America who are not subject to the requirements of the Code are responsible for determining the income tax consequences with regard to his or her receipt of an Award of Restricted Shares in his or her home country. Neither the Company nor the Service Recipient is responsible for providing tax advice to a Awardee with regard to tax consequences, and all Awardees are encouraged to seek competent tax advice before making your decision whether to accept the Award.

[Signature Page Follows]

IN WITNESS WHEREOF, the Company and Service Recipient have caused this Agreement to be duly executed by an officer thereunto duly authorized, and the Awardee has executed this Agreement, all as of the date first above written.

NATURAL HEALTH TRENDS CORP.

By: _____

Name: _____

Title: _____

SERVICE RECIPIENT

By: _____

Name: _____

Title: _____

AWARDEE

Name:

NATURAL HEALTH TRENDS CORP. 2016 EQUITY INCENTIVE PLAN
Restricted Stock Award Agreement

(Exempt Award to “Non-U.S. Person” Under Regulation S)

This Restricted Stock Agreement (this “*Agreement*”) is made as of _____, 2016 (the “*Date of Grant*”), between Natural Health Trends Corp., a Delaware corporation (the “*Company*”); the Company or its Affiliate by whom the Awardee is employed or otherwise retained to provide services (the “*Service Recipient*”); and _____ (the “*Awardee*”). Capitalized terms used but not defined in this Agreement shall have the meanings attributed to such terms under the Plan, unless the context otherwise requires.

1. Award. Pursuant to the Natural Health Trends Corp. 2016 Equity Incentive Plan (the “*Plan*”), and subject to the terms and conditions of this Agreement, the Service Recipient hereby awards to the Awardee, as of the Date of Grant, _____ shares (the “*Restricted Shares*”) of the Company’s Common Stock, which shall be issued as hereinafter provided in the Awardee’s name, subject to certain restrictions thereon. The Awardee acknowledges receipt of a copy of the Plan and agrees that this award of Restricted Shares shall be subject to all of the terms and provisions of the Plan. The Fair Market Value of each Share on the Date of Grant is \$_____.
 2. Restricted Shares. The Awardee hereby accepts the Restricted Shares when issued and agrees with respect thereto as follows:
 - (a) *Forfeiture Restrictions*. If the Awardee experiences a Termination of Service prior to the lapse of the forfeiture restrictions under Sections 2(c) and 2(d), any portion of the Restricted Shares that remain unvested shall be immediately and irrevocably forfeited in full.
 - (b) *Transfer Restrictions*. Restricted Shares may not be sold, assigned, pledged, exchanged, hypothecated or otherwise transferred, encumbered or disposed of to the extent then subject to the forfeiture restrictions as provided in Section 2(a), except with the prior written consent of the Company in accordance with procedures established and maintained by the Company. In all cases Shares must be sold in compliance with Applicable Law. The forfeiture, transfer, and other restrictions herein shall be fully binding upon and enforceable against any transferee of Restricted Shares.
 - (c) *Lapse of Forfeiture Restrictions*. Provided the Awardee does not experience a Termination of Service, the Restricted Shares (rounded up to the next whole Share) vest with respect to one-twelfth (1/12) of the Restricted Shares on the 15th day of last calendar month of each calendar quarter (e.g., March 15th, June 15th, September 15th, or December 15th) ending after the Date of Grant. Should the Awardee die or become Disabled while holding Restricted Shares, then the Shares shall become 100% vested upon his or her death or Disability.
 - (d) *Change in Control*. In the event of a Change in Control prior to the lapse of the forfeiture restrictions, the Restricted Shares shall thereafter fully vest.
 3. Additional Restrictions.
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(a) *Applicable Law.* With regard to any Restricted Shares with respect to which the forfeiture restrictions have lapsed, such Shares shall continue to be subject to the restrictions on transfer imposed under Applicable Law.

(b) *Certificates.* Any stock certificate(s) representing the Restricted Shares granted hereunder shall be stamped or otherwise imprinted with a legend with respect to any applicable restrictions contained herein and otherwise with respect to the sale or transfer of such Shares, and the stock transfer records of the Company will reflect stop transfer instructions with respect to such shares. At the election of the Company, any stock certificates evidencing Restricted Shares shall be held by the Company for the benefit of the Awardee until such time as the transfer of such shares is no longer subject to the forfeiture restrictions. Upon any lapse of the forfeiture restrictions without forfeiture, the Company shall (i) cause a new certificate representing the Restricted Shares with respect to which the forfeiture restrictions have lapsed to be issued without a legend (except for any legend required pursuant to Applicable Law), in the name of the Awardee and shall deliver such certificate to the Awardee, and (ii) cancel any certificates evidencing the Restricted Shares.

(c) *Corporate Acts.* The existence of the Restricted Shares shall not affect in any way the right or power of the Board or the stockholders of the Company to make or authorize any adjustment, recapitalization, reorganization or other change in the Company's capital structure or its business, any merger or consolidation of the Company, any issue of debt or equity securities, the dissolution or liquidation of the Company or any sale, lease, exchange or other disposition of all or any part of its assets or business or any other corporate act or proceeding. The prohibitions of Section 2 hereof shall not apply to the transfer of Restricted Shares pursuant to a plan of reorganization of the Company, but the stock, securities or other property received in exchange therefor shall also become subject to the forfeiture restrictions and provisions governing the lapsing and such forfeiture restrictions applicable to the original Restricted Shares for all purposes of this Agreement, and the certificates representing such stock, securities or other property shall be legended to show such restrictions.

(d) *Death of Awardee.* In the event of the Awardee's death, the identity of the owner of the Shares earned under this Agreement shall be determined in accordance with the terms of the Awardee's will, or, if no valid will exists at the time of the Awardee's death, the terms of the applicable laws of descent and distribution.

4. Withholding of Tax. To the extent that the receipt of the Restricted Shares or the lapse of any forfeiture restrictions results in compensation income or wages to the Awardee for federal, state, local, or foreign tax purposes, the Awardee shall deliver to the Company at the time of such receipt or lapse, as the case may be, such amount of money or, if permitted by the Board in its sole discretion, Shares as the Company may require to meet its minimum obligation under applicable tax laws or regulations. If the Awardee fails to do so, the Company is authorized to withhold from any cash or stock remuneration (including withholding any Restricted Shares distributable to the Awardee under this Agreement) then or thereafter payable to the Awardee any tax required to be withheld by reason of such resulting compensation income or wages. If determined appropriate by the Administrator in its sole discretion, the Service Recipient may pay to the Awardee an additional amount (the "**Gross-Up Payment**") such that the net amount retained by the Awardee, after deduction of any federal, state, or local income tax and employment tax upon the Gross-Up Payment, shall be equal to the value of the Shares for which the forfeiture restrictions lapsed, but for the application of Section 83 of the Code. For purposes of determining the amount of the Gross-Up Payment, the Awardee shall be deemed to pay federal income taxes at the highest marginal rate of federal income taxation in the
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calendar year in which the Gross-Up Payment is to be made and state and local income taxes at the highest marginal rate of taxation in the state and locality of the Awardee's principal place of residence, net of the maximum reduction in federal income taxes that could be obtained from deduction of such state and local taxes.

5. Status of Restricted Shares.

(a) The Awardee acknowledges that the Company has provided the Awardee with the opportunity to evaluate the merits and risks associated with ownership of the Restricted Shares and has had an opportunity to make such further inquiries regarding the Company and the Restricted Shares as the Awardee has deemed appropriate. The Awardee acknowledges that he has been advised to consult his own legal counsel, business advisor, and tax advisor as to legal, business, and tax matters relating to the award and ownership of the Restricted Shares pursuant to this Agreement. The Awardee is able to bear the economic risk of an investment in the Restricted Shares for an indefinite period of time and has such knowledge and experience in financial or business matters that the Awardee is capable of evaluating the merits and risks of such investment.

(b) The Awardee hereby agrees that (i) the certificates representing the Restricted Shares may bear such legend or legends as the Board deems appropriate in order to reflect the forfeiture restrictions and to assure compliance with the terms and provisions of this Agreement and Applicable Law, (ii) the Company may refuse to register the transfer of the Restricted Shares on the stock transfer records of the Company if such proposed transfer would in the opinion of counsel satisfactory to the Company constitute a violation of the terms and provisions of the forfeiture restrictions or any Applicable Law, and (iii) the Company may give related instructions to its transfer agent, if any, to stop registration of the transfer of the Restricted Shares.

(c) ***The Awardee acknowledges that the Restricted Shares have not been registered under the U.S. Securities Act of 1933, as amended (the "Securities Act"), or any other securities laws, and may not be offered or sold in the United States or to U.S. persons unless the Restricted Shares are registered under the Securities Act or an exemption from the registration requirements of the Securities Act is available (whether pursuant to provisions of Regulation S promulgated under the Securities Act or otherwise). Hedging transaction involving shares of the Common Stock of the Company are prohibited, unless such transactions are conducted in compliance with the Securities Act.*** The Awardee acknowledges that, in addition to other restrictions that may be imposed by the Company, none of the Restricted Shares may be offered or sold to a "U.S. person" or for the account or benefit of a U.S. person prior to the expiration of the six-month period following the Date of Grant. The Company hereby agrees and covenants with the Awardee that the Company will not register any transfer of the Restricted Shares, unless such transfer is made (i) in accordance with the provisions of Regulation S promulgated under the Securities Act, (ii) pursuant to registration under the Securities Act, or (iii) pursuant to an available exemption from registration under the Securities Act. The Awardee certifies to the Company that he or she is not a U.S. person and is not acting for the account or for the benefit of a U.S. person. The Awardee agrees with the Company that he or she will not engage in hedging transactions involving the Common Stock, unless such transactions are conducted in compliance with the Securities Act.

6. No Effect on Employment or Service Provider Relationship. Nothing in the Plan or this Agreement shall affect in any way the right of the Awardee or the Service Recipient to affect a Termination of Service at any time. If the Awardee is an Employee, unless otherwise provided in a written employment agreement or by Applicable Law, the Awardee's employment by the Service Recipient

shall be on an at-will basis, and the employment relationship may be terminated at any time by either the Awardee or the Service Recipient for any reason whatsoever, with or without cause or notice. Any question as to whether and when there has been a Termination of Service shall be determined by the Administrator.

7. Notices. Any notices or other communications provided for in this Agreement shall be sufficient if in writing. In the case of the Awardee, such notices or communications shall be effectively delivered if hand delivered to the Awardee at the Awardee's principal place of employment, if sent by registered or certified mail to the Awardee at the last address the Awardee has filed with the Company or Service Recipient, or delivered by electronic means, including electronic mail, in a manner that is determined by the Company to reasonably result in the Awardee's receipt. In the case of the Company or Service Recipient, such notices or communications shall be effectively delivered if sent by registered or certified mail to the Company or Service Recipient at its principal executive offices, or delivered by electronic means in a manner that is determined appropriate by the Company or Service Recipient.
 8. Binding Effect; Survival. This Agreement shall be binding upon and inure to the benefit of any successors to the Company and Service Recipient and all persons lawfully claiming under the Awardee. The provisions of Section 5 shall survive the lapse of the forfeiture restrictions without forfeiture. To the extent required by context, all references in this Agreement to "Company" shall be inclusive of all Affiliates.
 9. Entire Agreement; Integration; Amendment. This Agreement, the Plan, and any applicable equity rights or stockholder agreements between the Company and the Awardee represent the entire agreement between the parties with respect to the receipt of the Restricted Shares by the Awardee and contain all the covenants, promises, representations, warranties, and agreements between the parties with respect to the Restricted Shares granted hereunder. Without limiting the scope of the preceding sentence, all prior understandings and agreements, if any, among the parties hereto relating to the subject matter hereof are hereby null and void and of no further force and effect. Any modification of this Agreement shall be effective only if it is in writing and signed by both the Awardee and an authorized Officer of the Company. In the event of a direct conflict between the provisions of the Plan and the provisions of this Agreement, the provisions of this Agreement shall prevail.
 10. Governing Law. This Agreement shall be governed by, and construed in accordance with, the laws of the State of Delaware, without regard to conflicts of law principles thereof.
 11. Tax Consequences. The Awardee has reviewed with his own tax advisors the federal, state, local, and foreign tax consequences of this investment and the transactions contemplated by this Agreement. The Awardee is relying solely on such advisors and not on any statements or representations of the Company, Service Recipient, or any of their agents. The Awardee understands that he or she (and not the Company or Service Recipient) shall be responsible for any tax liability that may arise as a result of the transactions contemplated by this Agreement. The Awardee understands that Section 83 of the Code taxes, as ordinary income, the difference between the purchase price for the Restricted Shares, if any, and the Fair Market Value of the Restricted Shares as of the date on which any forfeiture restrictions on the Shares lapse. The Awardee understands that he or she may elect to be taxed as of the Date of Grant, rather than when and as the forfeiture restrictions lapse, by filing an election under Section 83(b) of the Code with the Internal Revenue Service within thirty (30) days from the Date of Grant. THE AWARDEE (AND NOT THE COMPANY, SERVICE RECIPIENT, OR ANY OF THEIR AGENTS) SHALL BE SOLELY
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RESPONSIBLE FOR APPROPRIATELY FILING SUCH AN ELECTION, EVEN IF THE AWARDEE REQUESTS THE COMPANY, SERVICE RECIPIENT, OR THEIR AGENTS TO MAKE THIS FILING ON HIS OR HER BEHALF. Any Awardee residing outside the United States of America who are not subject to the requirements of the Code are responsible for determining the income tax consequences with regard to his or her receipt of an Award of Restricted Shares in his or her home country. Neither the Company nor the Service Recipient is responsible for providing tax advice to a Awardee with regard to tax consequences, and all Awardees are encouraged to seek competent tax advice before making your decision whether to accept the Award.

[Signature Page Follows]

IN WITNESS WHEREOF, the Company and Service Recipient have caused this Agreement to be duly executed by an officer thereunto duly authorized, and the Awardee has executed this Agreement, all as of the date first above written.

NATURAL HEALTH TRENDS CORP.

By: _____

Name: _____

Title: _____

SERVICE RECIPIENT

By: _____

Name: _____

Title: _____

AWARDEE

Name:

**SUBSIDIARIES OF THE REGISTRANT
AS OF DECEMBER 31, 2019**

**NATURAL HEALTH TRENDS CORP.
A DELAWARE CORPORATION**

Name	Jurisdiction
NHT Global, Inc.	United States (Delaware)
NHTC International, LLC	United States (Delaware)
NHT Global (Canada) Company	Canada
NHTC Holding Company	Cayman Islands
NHTC Trading Company	Cayman Islands
NHT Global Taiwan Company	Cayman Islands
NHT Global CIS Company	Cayman Islands
NHT Global (China) Commodities Co., Ltd.	China
NHT Global (Zhongshan) Cosmetics Co., Ltd.	China
NHT Global Hong Kong Limited	Hong Kong
Natural Health Trends Japan, Inc.	Japan
NHTC Global Singapore Pte. Ltd.	Singapore
NHTC Wellness Products Malaysia Sdn. Bhd.	Malaysia
NHTK Ltd.	South Korea
NHT Global Europe S.R.L.	Italy
NHT Global Peru S.A.C.	Peru
Natural Health Trends (Thailand) Ltd.	Thailand
NHT Global Limited Company	Vietnam
PT Natural Health Trends Indonesia	Indonesia
NHTC (India) Private Limited	India
NHTGLOBAL BOLIVIA S.R.L.	Bolivia

The names of omitted subsidiaries when considered in the aggregate as a single subsidiary do not constitute a significant subsidiary as of the end of the year covered by this report.

CERTIFICATION

I, Chris T. Sharng, certify that:

1. I have reviewed this report on Form 10-K of Natural Health Trends Corp.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 9, 2020

/s/ Chris T. Sharng

Chris T. Sharng

President

(Principal Executive Officer)

CERTIFICATION

I, Timothy S. Davidson, certify that:

1. I have reviewed this report on Form 10-K of Natural Health Trends Corp.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 9, 2020

/s/ Timothy S. Davidson

Timothy S. Davidson

Senior Vice President and Chief Financial Officer

(Principal Financial Officer)

**CERTIFICATIONS PURSUANT TO
18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of Natural Health Trends Corp. (the "Company") on Form 10-K for the fiscal year ended December 31, 2019, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), we, Chris T. Sharnq, the Principal Executive Officer, and Timothy S. Davidson, the Principal Financial Officer, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of our knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: March 9, 2020

/s/ Chris T. Sharnq

Chris T. Sharnq

President

(Principal Executive Officer)

Date: March 9, 2020

/s/ Timothy S. Davidson

Timothy S. Davidson

Senior Vice President and Chief Financial Officer

(Principal Financial Officer)

The foregoing certifications are not deemed filed with the United States Securities and Exchange Commission for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (Exchange Act), and are not to be incorporated by reference into any filing of the Company under the Securities Act of 1933, as amended, or the Exchange Act, whether made before or after the date hereof, regardless of any general incorporation language in such filing.